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**MANAGING SERVICE CONTRACTS: WHAT
WORKS AND WHAT DOESN'T?**

HEARING

BEFORE THE

PANEL ON DEFENSE ACQUISITION REFORM

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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PANEL ON DEFENSE ACQUISITION REFORM

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MANAGING SERVICE CONTRACTS: WHAT WORKS AND WHAT DOESN'T?

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
PANEL ON DEFENSE ACQUISITION REFORM,
Washington, DC, Thursday, July 16, 2009.

The panel met, pursuant to call, at 8:03 a.m., in room 2212, Rayburn House Office Building, Hon. Robert Andrews (chairman of the panel) presiding.

OPENING STATEMENT OF HON. ROBERT ANDREWS, A REPRESENTATIVE FROM NEW JERSEY, CHAIRMAN, PANEL ON DEFENSE ACQUISITION REFORM

Mr. ANDREWS. Good morning ladies and gentlemen. Welcome to the panel. We appreciate the attendance of our colleagues and our witnesses and the ladies and gentlemen of the public and media that are here.

In the last decade or so, the amount of money that the Department of Defense (DOD) spends on service procurement has doubled from around \$100 billion a year to about \$200 billion a year, and as the panel has progressed, we have learned a couple things about that.

The one is that you really are comparing apples and oranges when you look at weapon systems versus services. They are very different kinds of procurement. They call for different needs and different skill sets and frankly different metrics to measure the success or lack thereof in buying them.

We also learned that there is a wide array of types of services that the Department of Defense buys. Everything from car washing services to very detailed software consulting. You might be buying group services would help you move a tremendous amount of stuff a lot of miles or you might be buying someone who is going to fix light fixtures on a base.

A lot of things happen, and therefore there is a huge variety of systems that are in place, some good, some bad, some indifferent. As we have discussed before, the panel's work program is the first to define metrics to measure the difference between the cost that we are paying and the value that we are getting, which we have completed that part of our effort.

And then to move onto a series of hearings that are hypotheses really about what might explain the difference between the cost we are paying and the value that we are getting.

This morning, our hypothesis essentially is that service contracts that have well-defined objectives, and that are carefully monitored

provide much better value for the taxpayer than those that have neither of those characteristics.

So a service contract, where the needs are very clearly spelled out, the expectations are very clearly contracted, and where there is in place an evaluative mechanism to protect the taxpayer and monitor the contractor, the results tend to be quite good and that the taxpayers get the value that we are seeking and we pay the cost or less than the cost that we have contracted for.

The other end of the spectrum are contracts where the requirements are ill-defined or rushed through, and where there is minimal oversight of the work that goes on. The record tends to show that we do not receive sufficient value and we overpay for such services.

So with that generic framework in mind, we are going to look this morning at three examples of service contracts, some of which have great strength, some of which have great weaknesses, and try to use those contracting experiences as a learning experience for the panel so that when we prepare our legislative recommendations to the full committee in the spring of 2011, we can draw from those experiences.

We are going to be looking at an Air Force contract and a Navy contract and an Army contract, but that frankly is not meant to suggest we think that any of those branches has the corner on the market or on the good, the bad or the indifferent.

The fact that we have chosen what we think is a very positive example from the Navy doesn't mean that we imply that we think the Navy does a better job than the other branches, the more controversial one is in the realm of the Army and conversely we don't think the Army does a poorer job. We just happened to choose those contracts for purposes of exploration today.

Obviously, the contract that has drawn the most attention is the Logistics Civil Augmentation Program (LOGCAP) contract and that is the one that frankly is more rife with trouble. The Government Accountability Office (GAO) found that that contract had insufficient personnel to manage it. The planning guidance was ignored. There was a failure to define or definitize, which I don't actually think is a verb, but a failure to define the task orders in a timely manner, poor requirements definition and contractor problems, making management difficult.

The other end of the spectrum, the Navy contract that we are going to look at this morning, seems to have achieved high value and high efficiency and seems to be a role model for what we might want to do in the future.

But I do want to emphasize from the outset, this is a very small sample in a very large universe. We do not by any means mean to imply that the positive example is characteristic of that branch or the negative example is characteristic of the other one. We want to learn from these experiences and use that learning to make good recommendations to our colleagues on the full committee and in the House.

With that in mind, I am going to turn to my friend, the ranking member from Texas, Mr. Conaway, for his opening statement.

[The prepared statement of Mr. Andrews can be found in the Appendix on page 31.]

STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE FROM TEXAS, RANKING MEMBER, PANEL ON DEFENSE ACQUISITION REFORM

Mr. CONAWAY. Thank you. Good morning, Mr. Chairman. Thank you for holding this hearing, and ladies and gentlemen, thank you for being with us today. I appreciate that.

This is our second panel on service contracting. Our first hearing was in April which looked at the issue of measuring value for service contracts. The focus of today's hearing is to learn what works, what doesn't work in regards to managing these service contracts.

As mentioned in our April hearing, the Department of Defense now spends more than—on its budget on services than on products which includes weapon systems. The GAO has reported numerous reports that the management and execution of service contracts is obviously not like managing and executing weapon systems contracts; master of the obvious.

In its 2006 report, GAO noted that the successful service acquisition management requires attention to the organization's ability to move from a fragmented manner of doing business to one that is more coordinated and strategically oriented; wonderful phraseology, hard to get to.

Primarily, this involves changing out services that are required in terms of business processes, organizational structures, their roles and responsibilities. In your submitted testimony, one thing that stood out was a need for oversight management after the contract is awarded. This could mean focus on efforts on adding more qualified and trained personnel, but not necessarily.

I look forward to hearing from the witnesses have to say and helping us gain some insight into how we spend taxpayer dollars better than we have been doing it. So with that, Mr. Chairman, I yield back and I look forward to our testimony of our witnesses.

[The prepared statement of Mr. Conaway can be found in the Appendix on page 33.]

Mr. ANDREWS. Well, thank you, and without objection opening statements from any member of the panel will be included in the record. Well, welcome. I know that each of the three of you is a veteran of these kind of hearings and I won't spend too much time describing the rules. We would simply ask you to summarize your written testimony in about a five-minute oral synopsis.

Without objection, the full extent of your written testimony is a part of the record. We have had a chance to read it. The panel tries to maximize question and answer dialog between the witnesses and the panel so we can learn more. I am going to begin by reading brief biographies of the three witnesses, and then we will get to the statements and then we will get to the questions from the members.

We will start with Brigadier General Wendy M. Masiello. Is that correct, General? A very distinguished career; she is the program executive officer for Combat and Mission Support in the Office of the Assistant Secretary of the Air Force for Acquisition here in Washington.

She leads the acquisition of Air Force services and is responsible for more than \$100 billion in existing and planned contracts across the Air Force. She earned her bachelor's of business administration

degree in marketing from Texas Tech University in Lubbock. Her master's from the Air Force Institute of Technology, the Wright-Patterson Air Force Base in Ohio.

She is a distinguished graduate of the Squadron Officers School. And I do want to read her major awards and decorations because they are very impressive and significant. Legion of Merit, the Bronze Star Medal, the Defense Meritorious Service Medal with an oak leaf cluster, the Meritorious Service Medal with two oak leaf clusters, the Air Force Commendation Medal, the Joint Service Achievement Medal with an oak leaf cluster, the Air Force Achievement Medal, and the Global War on Terrorism Service Medal.

General, thank you for your years of service and devotion to your country. We are glad that you are with us here this morning.

We want to welcome back Mr. Jeffrey Parsons who was with us a few months ago. We are happy to have him with us again. Mr. Parsons is the executive director of the U.S. Army Contracting Command, a new major subordinate command of the U.S. Army Materiel Command (AMC).

Prior to assuming his current position, Mr. Parsons served as the director of contracting, Office of Command Contracting Headquarters AMC at Fort Belvoir, Virginia. Prior to his appointment to the Senior Executive Service, Mr. Parsons was the director of Contracting Headquarters, U.S. Air Force Materiel Command at Wright-Patterson Air Force Base in Ohio where he retired from active duty as an Air Force Colonel after 26 years of service.

Mr. Parsons is a graduate of St. Joseph's University, as I noted before, and we are very happy to have him with us again. Mr. Parsons, thank you.

And finally, Mr. Jerome Punderson is the director of contracts for Naval Sea Systems Command (NAVSEA). He has the full authority and responsibility for one of the largest and most responsible procurement organizations in the Federal Government or the world for that matter.

His duties involve the obligation and expenditure of billions of dollars annually. He is a member of the Senior Executive Service (SES). Members of the SES serve in the key positions just below the top presidential appointees.

He was born in Lakewood, New Jersey about an hour from where I live, Mr. Punderson, and the important—he attended Rutgers University where in 1979 he earned his bachelor's of arts in biology.

In 2003, he earned a master's of science in national resource strategy from the Industrial College of the Armed Forces. Mr. Punderson is a recipient of the Navy Meritorious Civilian Service Medal and numerous special act awards. Thank you for your service to our country, and welcome to the panel.

General, we are going to begin with you. We will ask if you will give us about a five-minute synopsis and we will go to questions.

STATEMENT OF BRIG. GEN. WENDY M. MASIELLO, USAF, AIR FORCE PROGRAM EXECUTIVE OFFICER FOR COMBAT AND MISSION SUPPORT, U.S. AIR FORCE

General MASIELLO. Okay. Chairman Andrews, Congressman Conaway, distinguished members of the Defense Acquisition Re-

form Panel, I thank you for the opportunity to share with you the latest efforts in Air Force oversight and management.

I would like to set the stage if I could with where my role is and what the parameters of my responsibilities are. The Air Force Program Executive Office (PEO) for Combat Mission Supporter Services Acquisition was established in February of 2002 in response to the fiscal year 2002 National Defense Authorization Act (NDAA-02) expectation that the services create a management structure for procurement of services comparable to the structure for procurement of supplies.

My office provides the dedicated management structure for pre- and post-award service programs greater than or equal to \$100 million. Currently we track 170 programs with a potential contract value of \$150 billion.

The scope of our portfolio is broad, includes everything from base operating support to weapon system sustainment, information technology and advisory and assistance service efforts. But what makes us different from other PEOs is that we work through at least seven different major command chains and contracting authorities with none of them reporting to me or my subordinates.

We are not directly affiliated with any weapon system, installation or specific war fighting mission, and we have no budget input or control, yet we own all the acquisition responsibility for services over \$100 million worldwide and I have 17 people on staff to help make that happen.

Initially, our office focused on acquisition strategy and contract structure for programs over \$100 million, leaving post-award oversight to the owning organization. The theory was that if we got the contract right, then everything else would fall into place.

In the pre-award stage, we started doing things like moving from time and materiel to firm fixed-price agreements or cost fixed-fee arrangements when it was possible. We have weaned our teams for the most part off cost-plus award fee contracts. We shortened the length of our services contracts, beefed up government program teams overseeing multiple award indefinite delivery, indefinite quantity (IDIQ) contracts.

We have also enticed some flag officers from various major commands to assist us in the service program oversight by offering delegation of acquisition authority. And the delegation program has enabled our office now to reinstitute our post-award review, and these post-award reviews we have made our biggest shift of all where we think of service not as contracts but as programs.

And as we look at things with programs, that means we engage not just our contracting officer, but we get our quality assurance representatives, we get auditors, we get our financial advisors, and we get the commanders who own the mission being performed by the service provider at the table with us to talk about it.

During our annual post-award reviews, we examine contractor's performance and also discuss the government team's execution oversight of the programs they are responsible for. Here are some of the things that we have learned in that process.

In some cases, the teams responsible for the program's reviewing had never talked to each other until they prepared the briefing for our review. Some commanders were very frustrated with their con-

tractors but didn't know how to get it fixed so they were just living with the problems.

Some organizations had great Web-based quality assurance reporting tools to facilitate good tracking, even in the worldwide environment, so we are stealing those ideas to share across the Air Force.

Just because we move from a time and materiel contract to a cost-plus-fixed-fee contract doesn't necessarily mean the team is managed that way. We found that in some cases, even with a cost-plus-fixed-fee contract, there is a tendency to still manage it as though it is a time and materiel effort.

Adding more contractors to a multiple award IDIQ contract isn't necessarily a good thing, and we have challenges managing IDIQ ceilings and growth on individual task orders in those types of contracts too.

Our contracts are not always living up to the commitments that they have made, especially with regard to small business subcontracting. But the bottom line, as well constructed as our contract might have been, the success of the effort depends on the post-award involvement and the multi-functional government team and the preparedness of that team for the roles they must play.

In conclusion, laws and regulations will describe the continuum of the contracts that are available to us. Service actions often fall into a fixed price or the fixed price end of the spectrum, but it takes discipline to get there and sometimes the requirement legitimately needs the flexibility of the time and materiel cost-reimbursable effort.

So rather than defining preferred contract types, we have worked in the Air Force for more oversight and a multifunctional role and the post-award environment and we found that, as we get the teams involved, in the end they realize the benefit of their participation in the beginning as they define those requirements and we actually begin to improve our source selections in both the pre- and post-award environment.

We have improved competition. We are getting better prices with that greater discipline. We have increased attention on our small business participation with that and we have begun to link our large dollar service acquisitions with Air Force strategic vision and enterprise solutions in a way we haven't been able to before.

I previously submitted my statement about the individual contracts, Mr. Chairman, and this concludes my statement. Thank you.

[The prepared statement of General Masiello can be found in the Appendix on page 36.]

Mr. ANDREWS. General, thank you very much. We appreciate it. Mr. Parsons, welcome back to the committee.

**STATEMENT OF JEFFREY P. PARSONS, EXECUTIVE DIRECTOR,
ARMY CONTRACTING COMMAND, U.S. ARMY MATERIEL COM-
MAND, U.S. ARMY**

Mr. PARSONS. Yes, thank you, Chairman Andrews, Congressman Conaway and distinguished members of the Defense Acquisition Reform Panel. Thank you for this opportunity to discuss the Army's initiatives to improve service contracting.

The Army has undertaken initiatives that enable our contracting mission to be agile, expeditionary and responsive to our warfighters while ensuring proper fiscal stewardship of taxpayer dollars.

We use metrics to collect information about program performance and contract execution and use that information to improve how we structure future contracts. We use this approach to improve the acquisition strategy for our recent LOGCAP IV acquisition. A Logistic Civil Augmentation Program known as LOGCAP, is one of the primary service contracts the Army uses to support deployed warfighters.

LOGCAP is an initiative by the United States Army to pre-plan during peacetime for the use of civilian contractors to perform selected services in wartime and other contingencies to augment U.S. forces in support of DOD missions.

LOGCAP can also provide support to coalition or multi-national forces in other government and non-government agency components in support of joint combined coalition and multi-national operations.

This includes operations other than war such as disaster relief, peacekeeping or humanitarian assistance missions. We are pleased to report that the Army, through LOGCAP, is providing quick reaction support for operations worldwide including operations in very austere conditions.

The LOGCAP III contract was awarded on December 14, 2001 soon after 9/11, to Kellogg Brown & Root Services as a result of a competitive best value source selection. The contract is an indefinite delivery, indefinite quantity contract with one base year and nine option years.

When the Army awarded LOGCAP III, there was no prediction that we would execute the level of requirements that we have experienced to date. The requirements placed on LOGCAP III contract to support the overseas contingency operations have dwarfed the combined efforts of all previous LOGCAP contracts.

In the first 4 years of LOGCAP III, obligations exceeded previous efforts by almost 300 fold and grew to over \$14 billion by October 2005. These dramatic increases in the level of effort of the LOGCAP III contract, coupled with the challenges and problems that resulted from this rapid expansion, made it clear to the Army that it needed to develop and execute a new contract strategy to support the soldier.

The Army carefully considered the lessons learned from LOGCAP III execution and consulted with the Department of Defense, sister services, combatant commands and industry as the new acquisition strategy was developed.

The primary objectives of the new LOGCAP IV acquisition strategy were to reduce program risk, increase capacity, and incentivize contract performance. After considering how best to achieve these objectives, the Army made changes in strategy and organization structure to provide better service delivery to the war fighter and value to the taxpayer.

Four examples of these improvements include the following. The Army now uses deputy program directors stationed forward to support operations in Iraq, Kuwait and Afghanistan, and support the execution of theater support contracting.

These individuals serve as the senior LOGCAP advisor to the combatant commanders. These individuals also lead the team LOGCAP effort in the operational area. The LOGCAP deputy director's specific duties include overseeing LOGCAP contract management and administration, conducting task order change management, assisting in requirements planning and providing cost management acquisition information as required.

Secondly, the Army now has senior executives in charge of the LOGCAP program office and contracting office to ensure better communication and access with the war fighting commands. The appointment of Senior Executive Service (SES) to these key positions demonstrates the Army's commitment to ensuring that LOGCAP is properly managed. These positions are now at the same relative level as those controlling similar war fighting resources.

Thirdly, the Army uses multiple award indefinite delivery, indefinite quantity contracts to eliminate a single point of failure. Having three LOGCAP IV contractors lessens the probability that contractors will become overwhelmed by increases in requirements.

It also allows the Army to take advantage of competition throughout the life of the contracts. This helps keep prices down and quality and responsiveness up. One of the reasons for re-competing the LOGCAP requirements prior to the expiration of LOGCAP III, was to reduce the risk inherent in having only one contractor providing services.

When the Army competed LOGCAP III, this risk did not appear to be excessively high when viewed in the context of the level of services requested under LOGCAP I and LOGCAP II. However, as I mentioned before, due to the tremendous increase in services required by the overseas contingency operations, the Army Sustainment Command incorporated into LOGCAP IV this multiple award portfolio approach that mitigates the risk of any one of the three failing to perform.

Should any contractor fail to perform any task order it receives under the indefinite delivery, indefinite quantity arrangement, the other two contractors will serve as built-in backstops to allow ongoing mission support. The new business arrangement substantially reduces the risk of contractor non-performance.

Department of Defense is executing more control over LOGCAP requirements by a validation through a joint acquisition review board. This board ensures consistency and support levels across operating locations, and allows funds to be spent where they will provide the maximum benefit, given current mission requirements.

The supporting units have the planners and organizations that define the requirements to meet the needs of the U.S. forces. In addition, in an attempt to determine the proper use of LOGCAP as a capability in future contingencies both in continental United States (CONUS) and abroad, headquarters department in the Army G4 recently established the LOGCAP 2010 Strategy General Officers Hearing Committee which includes Army-wide representatives as well as participants from the Assistant Deputy Under Secretary of Defense for Program Support and the J4 from the Joint Chiefs of Staff.

The purpose of this committee is to address key program issues and collaboratively develop strategy for future LOGCAP utilization policy. Let me assure you that the Army contracting command is committed to excellence in all contracting, including these very complex and critical LOGCAP contracts.

We continue to collect lessons learned and make improvements and adjustments along the way to ensure mission success and protection of the interests of the government and the taxpayer. Thank you for inviting me to speak with you today. This concludes my statement.

[The prepared statement of Mr. Parsons can be found in the Appendix on page 46.]

Mr. ANDREWS. Thank you very much, Mr. Parsons.

Mr. Punderson, welcome.

**STATEMENT OF JEROME F. PUNDERSON, DIRECTOR OF
CONTRACTS, NAVAL SEA SYSTEMS COMMAND, U.S. NAVY**

Mr. PUNDERSON. Thank you. Good morning. Mr. Chairman and distinguished members of the Defense Acquisition Reform Panel, thank you very much for this opportunity to testify on Navy contracting, particularly as it pertains to the SeaPort Enhanced or the Seaport-E Program.

I am here as the director of contracts for the Naval Sea System Command, NAVSEA. I am responsible for the warranting of all contracting offices throughout the NAVSEA claimancy. I have worked in the contracting field for the Navy for the last 28 years including multiple leadership positions at NAVSEA responsible for the procurement of major weapons.

I also served as the program manager for the SeaPort-E which is a strategic approach to acquisition of services, employing affordable and timely procurement of services for a completely electronic Web-based marketplace.

While I am no longer the SeaPort-E program manager, as director of contracts, I oversee the SeaPort-E program to ensure appropriate management of this contract vehicle within the NAVSEA claimancy.

The SeaPort-E program is a follow-on to the original Seaport program which we initiated in NAVSEA in 2001. That program was started at NAVSEA headquarters as a means to rationalize spending across four common support service areas who were using many inefficient—we had some vehicles over at the General Services Administration, some were individual contracts.

But we were able to go from 350 separate contracts to 21 multiple award contracts. SeaPort did not provide as much opportunity for small businesses to compete as we desired because even though they held a third of the contract, they were only winning about 10 percent of the business.

So we created SeaPort-E in order to provide increased opportunity for small businesses and to expand the functional areas of those contracts to address the needs of our field activities and eventually the whole Navy.

We expanded to 22 functional areas of professional support services and engineering services and added the capability, set requirements aside, for small business, service disabled veteran-owned

small business and Small Business Administration (SBA) approved 8(a) contract.

We compete all requirements under the vehicle and we use the zone-based approach. These services are primarily CONUS services. There are some non-CONUS, but I would say it is 99 percent for CONUS. These geographic zones help small businesses compete in as small an area as they want or across the country if they desired.

We didn't want to take a small business that might support one of Indian Head's in ordnance expertise and think that they had to compete nationwide to get any business. Nearly 85 percent of the SeaPort-E contract holders are small businesses.

SeaPort-E portal provides a standardized sufficient means of soliciting offers from among the diverse population of large and small business. The SeaPort-E approach to acquiring services provides opportunities for many small companies, thereby bringing to the Navy diverse ideas and concepts.

This benefits the Navy and encourages job growth of the Nation. Small businesses benefit by being able to compete among other small businesses or on an unrestricted basis for Navy work. Since the inception of SeaPort in 2004, 47 percent of the approximately 1,700 task orders have been won by small business.

Three billion dollars have been obligated to small business as prime contracts and another \$2 billion have been subcontracted to small business. Every Navy requirement is pushed to all SeaPort-E contract holders via the portal rather than having to search the database for a particular solicitation.

They receive on-the-desk electronic notification linked right to that solicitation. In fact, some companies have said that they get too much information. We use a variety of cost and fixed price type task orders, but we do not use time and materiel type contracts. We use defense contract Audit Edge. They prorate information on all cost-type orders prior to award and Defense Contract Management Agency (DCMA) has assigned responsibility of contract administration.

SeaPort-E was designed to provide a powerful strategic tool to allow the contracting officers the maximum flexibility to exercise their own business judgment to best meet the needs of their customer.

Each ordering activity has the tools to manage the task orders using their own head of contracting activity, HCA authority—and developed the track acquisition cycle times, work load efficiencies, dollars awarded under SeaPort-E in both prime and sub-prime contract level.

These metrics continue to be refined and developed through the life of the program. For instance, we developed the capability to collect subcontracting actuals at the task order level electronically every six months to ensure the larger businesses are meeting their small business subcontracting goals.

We believe the SeaPort-E contracting vehicle is a success story for both the Navy and industry. We work with our partners both government and industry to continue to improve the program. At times we struggle with the ability to attract, train and retain ac-

quisition personnel, both in contract and program offices that would enable the Navy to further realize the benefits.

We have undertaken efforts using the money provided by Section 852 of the NDAA to improve our workforce and use our performance space service acquisitions, contract and authorize representative duties and advance source selection techniques.

Thank you again for allowing me to testify today, and I look forward to your questions.

[The prepared statement of Mr. Punderson can be found in the Appendix on page 58.]

Mr. ANDREWS. Well, thank you ladies and gentlemen.

Mr. Punderson, your last comment about acquisition workforce will be the focus of the panel's next inquiry next week and we will look into that issue. Thank you for the testimony, each of the three witnesses.

I wanted to begin, Mr. Parsons, with some questions about LOGCAP III. And, I am pleased to hear about the lessons learned. I just want to go back into the GAO report from, I believe 2005, and one example that struck me—it is actually 2004. In LOGCAP III, the GAO reported the Army directed the contractor in that case, to provide water for units within 100 kilometers of certain designated points.

But at least according to the GAO, the statement of work did not indicate how much water needed to be delivered to each unit or how many units there were. So if I read this correctly, the scope of work said, you know, within 100 kilometers of Tikrit or somewhere, deliver water, but it didn't say how many units there were within 100 miles of Tikrit or how much water each unit needed.

Is that correct, that the scope of work was that insufficient?

Mr. PARSONS. Yes, sir, that is exactly one of the things that mean lessons learned that we had out of LOGCAP III, was the need to be more specific in the defining of the requirements.

Mr. ANDREWS. But in this case as you—is this correct that that was—

Mr. PARSONS. I believe so. I mean if you take a look at the original LOGCAP III task order that was for the base life support was very general in nature.

Mr. ANDREWS. Yes. One of the things I wanted to say, Mr. Conway and I have talked about this, we want to make sure we hear from the contractor side of this and in future panels we will. I want to be very clear about that so we hear both sides, but it strikes me that sometimes contractors get beat up for things that we don't do very well in the government.

And this is not a rhetorical question, but how could this happen? How could we enter a contract that says we want to buy water, and that we, from our side, didn't give direction to the contractor as to how much water and how many units it had to go to?

Mr. PARSONS. Well, sir, the whole nature of the original LOGCAP contract envisioned a short duration type of an operation, and, you know, there wasn't an expectation that you would be providing these services for a long period of time. People understood that things were going to change, and that is one of the toughest challenges we have as the task order changed management.

Mr. ANDREWS. But wouldn't the contract even—I understand that. If you don't know the requirements when you do a potential 10-year contract, but wouldn't there be a provision that would say, you know, within x number of days or hours of delivery, that we would notify the contractor the quantity that was needed. Is there a provision like that?

Mr. PARSONS. There is today, and if you take a look at LOGCAP IV's statement of work and the objectives and the specific metrics. It is much more specific.

Mr. ANDREWS. How could there not be in the past? I mean this is reminiscent of our discussion in April where, I believe, it was about catering services, that it just strikes me as so elemental that when someone higher than your pay grade, I am sure, approved this contract, the fact that he or she missed this is just dumbfounding to me.

That, again, to use a sort of a homeowners example, I don't think any of us would say to the electrician, "Come over today and whatever you think needs to be fixed fix it and let me know how much the bill is." I mean, it is just astonishing to me that how do we get to a point that we issue a contract with that little specificity?

Mr. PARSONS. Well, again, sir, it was the nature of what that contract was originally designed for which was very undefined requirements for initial operations in providing some base life support to the soldiers who—

Mr. ANDREWS. Now, tell me what would happen today, in Afghanistan for example, if under LOGCAP IV I guess it would be at, right? Or is Afghanistan under three or four?

Mr. PARSONS. Four.

Mr. ANDREWS. Okay.

Mr. PARSONS. And we just awarded task orders for that, sir.

Mr. ANDREWS. If we were going to deliver water to units within 100 miles of Khost Province, who would be responsible for specifying the specifics of how much water, for whom and when? How would that work?

Mr. PARSONS. That would start with the units that have the actual requirements and they would inform the LOGCAP teams that is in country exactly how much water they needed delivered, the exact location, and then the administrative contracting officers that are located in Afghanistan would give direction to the LOGCAP contractors. But it all starts with the units being able to define the requirements.

Mr. ANDREWS. Now, one of the other criticisms in the GAO report was that there weren't enough contract officers, enough management personnel in place. Has that problem been fixed? Let us go back to LOGCAP IV. How many personnel, if it is not classified, how many personnel are in country right now in Afghanistan to manage this?

Mr. PARSONS. Performing LOGCAP oversight?

Mr. ANDREWS. Yes.

Mr. PARSONS. And just in Afghanistan?

Mr. ANDREWS. Yes.

Mr. PARSONS. I would have to get back to you with the exact numbers, but I think between both countries we have about 120 personnel today that are involved with LOGCAP management.

Mr. ANDREWS. Do you know the breakdown between Iraq and Afghanistan.

Mr. PARSONS. No, I do not, but I can get that for you.

[The information referred to can be found in the Appendix on page 67.]

Mr. ANDREWS. Do, you know, I have no frame of reference for that. How many people in country did we have in 2004, 2005?

Mr. PARSONS. That was part of the problem. We didn't have any.

Mr. ANDREWS. We didn't have any.

Mr. PARSONS. Had them early. They were early on in 2004 and—

Mr. ANDREWS. Well sure, there are some reasons for that.

Mr. PARSONS [continuing]. That is why we re-established—

Mr. ANDREWS. I realize that there are—obviously it is a war zone. There are some safety issues, other issues, but that is astonishing.

Mr. PARSONS. Yes.

Mr. ANDREWS. Well, when did we first have personnel in theater under LOGCAP III?

Mr. PARSONS. Yes. Well, let me qualify. It means is the Defense Contract Management Agency had been there from the start performing contract administration, contract management. We did not have any LOGCAP program office personnel.

Mr. ANDREWS. I understand.

Mr. PARSONS. But that was made in 2004.

Mr. ANDREWS. But when did we first have LOGCAP program managers in country under—

Mr. PARSONS. End of 2004, beginning of 2005.

Mr. ANDREWS. Wow. So we essentially had a situation where on the ground from March of 2003 on with no contract officer until January of 2005? Why is that?

Mr. PARSONS. Again, there was no foresight into how long this operation was going to be, and I think if you remember and recall there was a lot of people that were forecasting it to be a short-term operation.

Mr. ANDREWS. We do remember that, yes.

Mr. PARSONS. And you know, as a result, you know, folks thought that they could manage this sufficiently from back in the states, but again, that was one of the lessons learned to think as general managers.

Mr. ANDREWS. I am not unsympathetic to the point that placing civilian personnel in a hostile environment is a very sensitive problem. It is not something you do lightly, but boy, it seems like—okay, I am going to come back for a second round and thank you for your answers and go to Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. Mr. Parsons, you were doing a lot of head nodding at the end of the General's testimony. Either you are a really bad poker player or you were agreeing with a lot of the systems of how the Air Force does it versus the way the Army does it.

And helping us understand, you know, we would like to do the best of both systems. Neither one of them are perfect, but both of them are good and we would like to try to make sure we understand the best of those.

And you had mentioned post-award involvement, but you also said that your team doesn't have any post-award authority for once a contract has been awarded and handed off to whatever. Can you kind of walk me through how that works?

General MASIELLO. If I communicated that it was inappropriate. What we had not done for a couple of years because our staff was very small and we were working direct relationships with each program, that any contract that was going to exceed \$100 million we got involved in defining the source selection strategy, helping make those decisions.

And because we had such a lean staff we weren't doing any of the post-award, but in the past couple of years we have started delegating some of our authority to some of the general officer and Senior Executive Service members out in the major commands, and getting them to help us provide better oversight with certain conditions.

And that has then relieved our office to go out and get more involved in the post-award oversight role because that is part of our responsibility as well. And really, in my mind, that is one of the things we haven't done well. We just haven't had the resources or dedicated much time to paying attention to what goes on in services acquisition.

Historically, I, my observation, having grown up in the contracting community, too, many times our functionals or our customers will have a need and they will say, "Oh, okay, contracting, I need people to do maintenance for me. Over to you." And then the contract gets put in place and people don't pay much attention to it.

And historically if there was something wrong with that particular contract or in an inspection or in evidence, or in some type of inspection something went wrong or that contractor didn't perform well, it was the contracting officer that got held accountable for that failure, when the reality is that contractor is performing a commander's mission.

That commander's very mission success depends on the quality of that contractor and their performance, which means when a quality assurance evaluator is assigned by that mission commander, the theory is you would assign among your best to do that role. Historically we haven't done that very well.

So in this post award environment we have put a lot of attention on how the government team is organizing, who they are assigning to provide that oversight. Does that mission commander even know what the contractor is or even understand the value of those contractors to the success of their mission?

And we are getting them increasingly involved, and if I could just give you an example. I am sure you have heard about Vance Air Force Base, one of our training bases in the Air Force. Almost the entire installation is contracted and when we do one of our annual execution reviews with that particular wing commander, he was involved in that post-award discussion.

We had a lot of really good dialogue about what that contractor was doing and does he know what they are doing and how aware and how well is his team managing that contractor to achieve the objectives they need to do.

And I could hear the light bulbs coming on and in the time that he took over he went back and realigned performance plans for his civil servants who were responsible for overseeing the contractor. He started holding his military leaders accountable for what those contractors were doing.

They actually prepared exercises that they tested what they would do if the contractor wasn't able or chose not to perform for some reason, for example, a strike, and had run those exercises a couple of weeks prior to the strike actually occurring that shut down mission training for three weeks.

And the good news is they had worked out all of those work-around strategies. They knew what they were going to need to do in order to keep mission going. That is part of staying involved, and when you have those dialogues you get involved.

Now, what I want to make sure is we have just never thought that way before. Good or bad or indifferent, we just traditionally as a culture haven't thought that way before. So to have this dialogue, to have this mentoring discussion to coach them on what it is they need to do and how to get involved, has been just really productive and enlightening for many of the functionals. So that is how we have gotten involved in the post-award environment.

Mr. CONAWAY. Okay. I want to get one real quick one with Mr. Parsons. Would you explain what is going on with LOGCAP III in Iraq versus LOGCAP IV? What is the kind of transition?

Mr. PARSONS. We are in the process of releasing the solicitation to transition the work in Iraq off of LOGCAP III into LOGCAP IV, and that solicitation should be out on the street in the next week or so, with the anticipation that we will do an award sometime in August, late August or early September.

Mr. CONAWAY. And that would provide for the drawdown requirements as well?

Mr. PARSONS. Correct.

Mr. CONAWAY. All right, and then, okay. Once it is awarded in August then you will be off the LOGCAP III concept?

Mr. PARSONS. We will be, again, I think it will be early September when we make the awards and then there will be a transition timeframe and then you have got to transition the work from the incumbent contractors to whoever winning contractors will be, and that takes a period of anywhere 90 to 120 days depending on what the service is.

Mr. CONAWAY. Okay. I may have a second round as well. Thanks.

Mr. ANDREWS. Thank you, Michael.

Mr. Ellsworth is recognized.

Mr. ELLSWORTH. Thank you, Mr. Chairman. I would like to, I guess, piggyback on both the former Members' comments. Going back to the water for a second, I guess there is an——

Mr. ANDREWS. We are not former Members.

Mr. CONAWAY. We are former Members?

Mr. ELLSWORTH. Really. Sorry about that.

Mr. CONAWAY. I woke up and thought I was still a Member of Congress.

Mr. ELLSWORTH. Not at all.

Mr. CONAWAY. Wow, things change quickly.

Mr. ELLSWORTH. The Members that formerly spoke.

Mr. ANDREWS. There you go.

Mr. CONAWAY. Formerly questioned.

Mr. ELLSWORTH. You know, I have totally forgotten what I was going to say.

Mr. ANDREWS. Sorry, Brad.

Mr. ELLSWORTH. Let me go back to the water for just a second in that assumption that what the chairman said that, you know, when you make this contract you don't think you are going to be there forever, this long, but there is an assumption that this contractor is a water expert I guess and they would therefore do the calculation that this soldier carrying this much equipment would need this many liters of water over the course of a day in this weather, and that is their job to figure that out.

We are going to give them the contract, but there needs to be that communication, you know, between them. Somebody needs to be checking and saying—I am sitting here thinking things. It was, “How many big screen TVs do we need or, you know, on certain meals or certain comforts, but weapons, ammunition, things like water, food and ammunition would be absolutely critical that we got it right.

And there is not a lot of leeway on water of, you know, when these guys are in the field or in an outpost that can't just call back and say, “I need five more skids,” and it gets there like that.

So I guess that is why that example is so critical for the basics for life. On not-former-Member Conaway's comment, talk about what both like LOGCAP and Air Force Contract Augmentation Program (AFCAP), General and Mr. Parsons about the drawdown, and if you can, the involvement there. What is happening? How involved and what is the involvement of both AFCAP and LOGCAP in the drawdown, if you can explain that to us, how your organizations are involved?

General MASIELLO. From what I am hearing from the AFCAP team as LOGCAP draws down AFCAP is standing ready to receive perhaps some of the effort that LOGCAP once does. And in fact, it creates a competitive environment now between a LOGCAP-type environment or AFCAP-type of provider.

Part of our condition on taking that in is having a point of contact responsible for defining that requirement in a disciplined way, and that is how the AFCAP tasks are assigned in the beginning. They come assigned with a quality assurance evaluator in the beginning. So that becomes a point of contact, not only in the final requirement but also in the post-award evaluation process.

So AFCAP is posturing to support Iraq effort as is required. Clearly, we are not at all the dominant player in that theater, but are standing ready to support as required.

Mr. PARSONS. Yes, in terms of the LOGCAP, our executive program director for the program has been over to Iraq quite frequently over the last six to eight months and working with them in the planning on the drawdown.

What they are looking at is trying to establish where are the more enduring bases going to be located after the drawdown? Which camps are being transitioned over to the Iraqis and the timing of that, and so all that is being worked as we speak.

In fact, it is one of the things that has kind of delayed us getting the solicitation out is because the theater hasn't been real definitive, well, I shouldn't say real definitive. It is that things have been changing as far as, you know, where we are pulling troops out, where we are going to still have troops stationed for the more enduring operations.

And so all that planning has been taking place. It is being communicated and then it is folded into the statement of work that we will be issuing with the request for proposal (RFP). In that the LOGCAP contract probably will be used to provide some of the retrograde as the forces draw out of Iraq, we anticipate that we will probably issue some additional task orders for transportation type of things to withdraw some of the equipment out.

Mr. ELLSWORTH. And I have to assume that is all part of it is what we leave and what stays, what we transfer, what we just abandon. What costs more to bring back than it does to leave there because I can just, you know, you look in the crystal ball about the "60 Minutes" program down the road that says the story about what was left of American equipment that we paid for that maybe we shouldn't have or maybe, you know, we should have brought home or destroyed or whatever it might be.

Mr. PARSONS. Cheaper to—

Mr. ELLSWORTH. I will yield back for now, too. Go ahead.

Mr. PARSONS. If I could just add, Army Materiel Command in a separate LOGCAP itself has got a large planning process going on in taking a look at retrograde and trying to ensure that we don't repeat a lot of the lessons that we had from the Gulf War and making sure that we do more of what they call responsible, you know, reset responsible retrograde and making sure that we are bringing the right things out.

Mr. ANDREWS. If I may, I think Chairman Snyder has already done some work with his subcommittee on coming up with a method to do an evaluation of the cost effectiveness of bringing stuff home with all the transportation costs versus selling what you can sell versus simple abandonment.

Mr. PARSONS. Right.

Mr. ANDREWS. And I know that he has done some work on that as long as maybe 18 months ago, so they have done some office—we have done some good work in the committee on that already. It is a very big problem.

Mr. PARSONS. Yes.

Mr. ANDREWS. Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman. I am wondering, obviously, one of the big concerns here is the professionalism of our contracting personnel, and having been retired military myself I am always interested in taking snapshots of where we are.

And I look back at being an infantry officer and a platoon commander in 1980 in the Marine Corps and the quality of the force at that time, going back to the first Gulf War, the quality of the force then, and then going back to Iraq in 2005 and the quality of the force then. It evolved dramatically upwards during those three snapshots in terms of the quality of particularly the young enlisted personnel.

In looking at the—our contracting folks, are most of them, I guess my first question would be are most of them, I mean, is that a career path in and of itself? Or do people do that or are they logistics people that, you know, go out to the fleet, you know, on one tour of duty and then come back in a subsequent tour and do contracting?

Or are we evolving more into just specific contracting personnel and give me a snapshot maybe 10 years ago what it looked like and today and what it looks like, and tell me which direction we are moving in? Either one—anybody.

General MASIELLO. Sir, I will go ahead and start from an Air Force perspective. It is a little out of my line job jar-wise but as a contracting professional I can speak from that particular side of my background.

In the Air Force, our enlisted troops and our officers have a career path dedicated to contracting specifically. So from the very beginning, swearing in as a basic trainee, they will be a contracting professional. Now, on occasion, we will cross flow other careerists into the contracting career field and then we will put them through our traditional training.

But in the Air Force it is contracting both, or contracting skill sets for both enlisted and officers. It is probably one of the things that has contributed to our ability to support the theater, where the Air Force has represented 70 to 80 percent of the deployed contracting support capability for the entire department.

Mr. PARSONS. And I will just add, I mean, obviously this was one of the topics of the Gansler Commission review that took place back in the fall of 2007, and there was a considerable discussion in that report of the Air Force model for growing contracting professionals in the military and in the Army.

And the recommendation is, because what happens in the Army is we do not cross folks over into contracting until they are what they call branch qualified, which could take up to eight years. So it is not unusual that the people that were getting into contracting on the Army side had done seven, eight years as an infantry officer, an Army officer, maybe even a, you know, quartermaster before we bring them over.

Based on the Gansler Commission recommendation we are looking to move that back because the Gansler Commission believes that there is some value to having contracting people who have operational experience.

And I can tell you being a product to the Air Force model I didn't have any operational time when I was a contracting person, and if there is one area where I wish I probably had had some, and so, as General Masiello says, I think the Air Force is trying to cross some people over to give them some exposure to that. I think you need to have some operational flavor to do this.

But clearly we have to start the contracting individuals earlier in the career field to get the type of expertise that we need, and in fact, up until two years ago, we didn't even have a non-commissioned officer (NCO) designation for contracting like the Air Force.

And the Air Force, you know, their contingency crew, the backbone is really on NCOs and so the Army is just now developing,

and we have about 125, 130 NCOs that we have just brought in to start doing contracting training.

Mr. PUNDERSON. I can't speak for the whole Navy. I can only speak for NAVSEA. Only military contracting officers have our officer rank. I can get you an exact number, but I think there are 12 at headquarters. And I suspect there are another 10 to 15 scattered around the field as part of a workforce of approximately 800 people. Everyone else is civilian. But we are an acquisition unit. We are not in operational management.

Mr. COFFMAN. Right.

Mr. PUNDERSON. We do the supply corps officers which are the military officers that do contracting, go over in theater on individual augmentation basis, on a 9-month or 12-month tour, but there is no—from NAVSEA, very limited military involvement in contracting.

Mr. COFFMAN. Well, certainly I think from the standpoint of the Army seems to be evolving. The Air Force seems to be there. Where we are developing a specialty or in fact you are already there—

Mr. PUNDERSON. Yes.

Mr. COFFMAN [continuing]. Of an expertise in contracting. And that is interesting about having or not having the operational experience and how that plays into it. I know the Marine Corps loves operational, everybody to have the common set of experiences.

Now, General, you mentioned point of contact issues in terms of responsibility. Is that one of the problems that we have, that there are so many people with their fingerprints on this that no one person seems to be responsible and that is maybe how we get contracts that are out of line?

I mean, do we have problems with service contracts crossing boundaries where, you know, tours of duty or command changes where, you know, it is kind of like who is responsible?

General MASIELLO. That is part of it. I think it is also a cultural thing that often when a contractor steps into the role to do the job there can be a mindset of just kind of shutting down the brain to know that is a contractor's responsibility, but that is a problem because it is the government's responsibility to make sure the contractor does what it is they need to do.

And in fact it is the government's responsibility to define the requirement, and what is often challenging as we have relied on contractors and I find as we go in our press to war environment or even as we plan for follow-on acquisitions, it is certainly the dollar level that I am dealing with sometimes, is we have relied on contractors to do that work for so long in some cases we are not even sure what they are still doing for us.

So we have to really spend a lot of time re-baselining what our contractors are doing for us and that is, in my opinion, best handled by the people whose mission the contractor is being performed.

They are the people who understand what the contractor should be doing, how and why, and as the contract is really the tool for documenting that requirement, somebody has to help us best define that requirement, and it is usually the person who owns the requirement.

And to be fair, often they don't know how to do that, but what we have done is we have been working with the University of Ten-

nessee and Defense Acquisition University (DAU) to help develop some training programs to prepare those folks that we need to help us define these requirements well to do that role.

And it is one of those things where you are really frustrated when you are asked to do something and you don't know how to do it, how frustrating that is, so you strike back. So instead of just asking somebody to do them and not give them the tools, we are really working to try to give them the tools to help best succeed in getting this right.

Mr. ANDREWS. Yes. If you could answer quickly, the gentleman's time expired, but if there are anyone else to answer Mr. Coffman's question? Okay, we will move on.

I wanted to, General Masiello, ask you about the Defense Intelligence Agency (DIA) experience with Intelligence Information, Command and Control Equipment and Enhancement (ICE2) contract that you mentioned in your testimony, and it appears that this successful collaboration resulted in a 25 percent reduction in fixed labor rates producing a \$145 million increase in buying power in the final 2 years of the contract. Could you elaborate for us how that worked and how that calculation was derived?

General MASIELLO. We worked with the Defense Contract Audit Agency and the contractor to get an understanding of what cost elements were involved as we extended the contract two additional years. When you extend your contract value or where you can extend your contract, you need to have cost insight in the sole source environment.

Previously the rates were set in a competitive environment—

Mr. ANDREWS. Right.

General MASIELLO. And for the follow-on we wanted some insight. We worked with the auditors. We worked with the contractor and came to the agreement of a 25 percent reduction.

Mr. ANDREWS. And what was the size of this contract? What is the \$145 million measured against?

General MASIELLO. It is about 25 percent. It was about \$600 million, \$600 million to \$700 million.

Mr. ANDREWS. So—

General MASIELLO. It was very healthy.

Mr. ANDREWS [continuing]. In other words, the status quo would have us spending about \$600 million, but we got the same value for \$455 million or something like that?

General MASIELLO. Exactly sir. We kind of looked at it the other way. We had a \$600 million ceiling so we are really buying in that \$145 million worth of work.

Mr. ANDREWS. And it, in layperson's terms, to what would you attribute that success? Why were we able to achieve that level of success?

General MASIELLO. Working with a contractor and they are realizing that they had a mission to help us perform and they worked with us to get the data ready.

Mr. ANDREWS. I am sorry. What exactly was the contractor doing?

General MASIELLO. This was information technology (IT) solutions for the intelligence communications.

Mr. ANDREWS. So the DIA needed some IT solutions. We had a contractor that was providing them.

General MASIELLO. And had been for a number of years.

Mr. ANDREWS. And you were called in to manage that process when it went to the sole source world.

General MASIELLO. The Air Force had that contract for a number of years and it, in the global war on terrorism boom, we had maxed out the ceiling available on that contract and we needed to buy a couple more years——

Mr. ANDREWS. Right.

General MASIELLO [continuing]. In anticipation of DIA taking it on.

Mr. ANDREWS. Mr. Punderson, I wanted to ask about the success of the Seaport-E program and it sounds like you have done a great job at enhancing competition and diversity with small businesses and, I mean, intuitively I think that that does drive better value and lower cost.

But are there metrics by which we could measure that and then should we fill in the blanks that because you have had this success in creating more competition we saved x dollars, or is there an equivalent to what General Masiello just said we could say about Seaport-E?

Mr. PUNDERSON. I don't have hard data. We have anecdotal from program managers. We had come off—our biggest savings was competing things that had not necessarily been competed before in our first days.

Some of the time and materiel contracts with General Services Administration (GSA), the program manager told us that he got the same team at a 45 percent reduction from the same people at the same company.

Mr. ANDREWS. And what did that team do?

Mr. PUNDERSON. This was the team providing program management support for them——

Mr. ANDREWS. Okay.

Mr. PUNDERSON [continuing]. Helping them to manage their program.

Mr. ANDREWS. So at least in that anecdote the testimony was a 45 percent savings through the competition?

Mr. PUNDERSON. Right. Now, that was coming off a very inefficient vehicle.

Mr. ANDREWS. Right.

Mr. PUNDERSON. And I would say that savings phase——

Mr. ANDREWS. Right. So it was a horrible baseline that we are working from.

Mr. PUNDERSON. Yes.

Mr. ANDREWS. Yes.

Mr. PUNDERSON. It is a wonderful success story other than you shouldn't have to do it in the first place.

Mr. ANDREWS. I understand.

Mr. PUNDERSON. And now we are coming around again, and we are saying, okay, that was kind of like low-hanging fruit.

Mr. ANDREWS. Right.

Mr. PUNDERSON. So now we are working on getting better requirements definitions so in our next phase of competitions is——

Mr. ANDREWS. Yes. We want to be careful and understand that diminishing savings may be a function of better requirements than actual savings. We get that that we don't want to punish people for doing a good job on requirements.

Is there a plan in place to derive the data I just asked about, that we can move beyond the anecdotal?

Mr. PUNDERSON. We had a very hard time setting a baseline and what we were coming from because as I told you, we had 350 contract people just at NAVSEA headquarters.

Mr. ANDREWS. Yes.

Mr. PUNDERSON. And to say you had the same requirement five years later was very hard, especially in that program management support area. So we have not found an effective way of telling you absolutely it cost \$100 here. It is \$97 here.

Mr. ANDREWS. I know witnesses hate to do this, but without prejudice, as we say, meaning that neither you nor NAVSEA will be held to this, if you had to make an educated guess as to what that \$100 was reduced to, what would that be?

Mr. PUNDERSON. We actually—

Mr. ANDREWS. Again, we will not hold you to this in—

Mr. PUNDERSON. We had a study done, at the time we were starting, and they anticipated that it would average 7 to 10 percent.

Mr. ANDREWS. Well, that is very good.

Mr. Conaway.

Mr. CONAWAY. Just one final thing. Mr. Parsons, you have got two years under your belt now, with LOGCAP IV but no GAO report yet. Clearly criticisms from III and II, do you expect that GAO will not find criticisms with III, when they do their review of LOGCAP IV?

Mr. PARSONS. That they won't have criticism especially with LOGCAP IV?

Mr. CONAWAY. Well, that they won't find the same criticisms as the ones they found in III.

Mr. PARSONS. Actually, I think there were some follow-on GAO reports, even after the early ones in LOGCAP III, where they recognized a lot of the improvements we made by, you know, putting more program management structure in place, putting people forward.

Yes, you know, we welcome any kind of further reviews. I mean, we have asked the Army audit agency to do follow-on reviews on how well the LOGCAP IV is being managed because there is always room for improvement.

But I can personally tell you, having been associated with the program for five years, we are not managing it today like we did five years ago when I came in.

And part of the reason I was nodding my head with General Masiello is I did have some involvement with the development of her office and I brought it to the Army and said, "Well, we manage these service contracts, especially something like LOGCAP, where we are in the billions of dollars. You need some kind of program management structure in here to do this properly."

And I was one of the ones that originally pushed to get a Senior Executive Service member to lead the program. And you see, on the

hardware programs, you have got general officers and SES running those hardware programs, and here we have a \$5 billion a year service contract that warrants to have a general officer or SES running that as well.

Mr. CONAWAY. Okay. Thank you, Mr. Parsons.

Mr. ANDREWS. Mr. Ellsworth, any follow-up?

Mr. ELLSWORTH. I know not to reference comments from other Members.

Mr. ANDREWS. Other present Members?

Mr. ELLSWORTH. From my higher ranking Members that I admire so much.

Mr. CONAWAY. Keep it up.

Mr. ANDREWS. You are doing very well.

Mr. ELLSWORTH. Mr. Punderson, you have talked in your testimony, in the written comments, about small business and some of the improvements and the things we have done to increase that. I have a lot of friends I hear from that would love to break into, you know, kind of provide very good service on this thing, and would love to get into some of the business.

Can you talk about some of the efforts you have made and how they might break into that ever-expanding web of government contracting? I hear it every weekend when I go home, "How do I get into that system?"

Or they will go on the Web site, look at the system, and then say, "No, that is not for me, way too complicated," which appears to them to be a monopoly and wouldn't be competition of other small businesses. How have you had those successes?

Mr. PUNDERSON. What we do is, when we put the contracts in place, first SeaPort-E contracts in 2004, we had 141 contracts. Every year we have done what we call rolling admissions. The contract allows us to add more contractors.

So every year except this year, so far, we have put a solicitation out to allow people the opportunity to propose against the solicitation put out of our office, it is all in Virginia, it is on FedBizOpps, the information about it is on seaport.navy.mil and we would announce there in advance.

We put questions and answers that have ever been asked about the program. Last year we did two, because the Small Business Administration asked us to do a special one just for 8(a) contractors. We added that and we did that and added, I believe 199 8(a).

So as long as—and Dahlgren never hear this, we plan on later this year putting another solicitation out—

Mr. ELLSWORTH. We will keep it quiet for you.

Mr. PUNDERSON. Thanks. So if people look at seaport.navy.mil all the information on how you get in and when that occurs is all published.

Mr. ELLSWORTH. And just in my final comment, Mr. Chairman, I was looking at your resumes, all three of you before this, and, you know, we were talking a few minutes ago about trying to shirk responsibility and, you know, people that don't want to take the blame.

And I look at this and all three of you are people that have invited responsibility your whole lives and your whole careers, and the kind of people that get stars on their shoulders and have these

kind of careers are the ones that say, "I will take that on," knowing that someday I might get invited to a hearing like this and get, you know, the what beat out of you.

Or a GAO report comes down, your response, and I appreciate that because you have probably said, you and many like you are willing to take it on, knowing what is going to be criticism, let us improve more forward from here, so thank you all very much. I yield back, Mr. Chairman.

Mr. ANDREWS. Thank you.

Mr. Coffman, any follow-up?

Mr. COFFMAN. No, Mr. Chairman.

Mr. ANDREWS. Well, thank you. I want to thank my colleagues and the witnesses for doing an excellent job, as we expect.

I want to echo something Mr. Ellsworth just said. There was a news report yesterday that a prominent investment bank that we used to own a piece of, until they paid it back, had record profits, and the average salary, if you divide their profits by the number of people they have, is over \$700,000 a year.

And I do want to reflect the fact that we appreciate the sacrifice the three of you are making to manage huge amounts of money, and more importantly, manage programs that are life and death in many cases, for the people who wear the uniform of this country, and we appreciate the sacrifice that you make and how hard you have worked throughout your career.

The other thing that occurs to me, and this is not a criticism of you, it is more of an observation of us, in this \$200 billion a year enterprise, where we are spending a huge amount of money, in a huge number of contract vehicles, to buy everything from, you know, food supplies to software and everything in between, we don't do a very good job of gathering and analyzing data.

And again, you are all busy actually doing the contracting, I am not criticizing you, but we really don't have our arms around trends and data the way that we should, and I think that is one of the things that the Congress is going to have to focus on to make sure that we have a better picture.

It strikes me that General Masiello's testimony is a success story because you got a grip on data. In that DIA contract that you made reference to. It sounds to me like the first thing you did was get a sense of what had gone on in the past, particularly the labor rates, drilled down on that and achieved a very, very good result.

I am sure there are other examples where the Army and the Navy have done the same thing, but I think we want to institutionalize that success, and that is the challenge that we have legislatively.

Mr. Conaway, do you have any closing comments?

Mr. CONAWAY. No, I just appreciate you being here this morning, and I agree with your comments about your dedication and service to this country over a long period of time, when perhaps more lucrative careers would have been available to you.

So thank you for your service and we may have some other questions, on a go-forward basis. I think, collectively, we can say that we are really more about looking forward, making sure that we have not made the mistakes we have made in the past. We have got plenty of new mistakes to make. They are out there. But we

are all in this together and the taxpayers deserve our really best——

Mr. ANDREWS. I completely agree with that. This panel is not about grandstanding on problems that we can identify. It is about trying to analyze and fix them, as I think you are all about as well.

So thank you very much for your time and we will be calling you again. Panel is adjourned. Thank you.

[Whereupon, at 9:09 a.m., the panel was adjourned.]

A P P E N D I X

JULY 16, 2009

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

JULY 16, 2009

OPENING STATEMENT FOR CHAIRMAN ROBERT ANDREWS
DEFENSE ACQUISITION HEARING
July 16, 2009

Welcome everyone to today's hearing on *Managing Service Contracts: What Works and What Doesn't?*

Our witnesses today are:

Brigadier General Wendy Masiello
Air Force Program Executive Officer for Combat and Mission Support
United States Air Force

Mr. Jeffrey P. Parsons
Executive Director, Army Contracting Command
US Army Materiel Command
United States Army

Mr. Jerome F. Punderson
Naval Sea Systems Command
United States Navy

In April, the panel held its first hearing focused on service contracting. That hearing addressed the issue of measuring value in service contracting. That is an important consideration since the Department of Defense spends approximately \$200 billion for contractor supported services, more than double the amount spent on such services a decade ago. The Department now devotes more of its acquisition budget to buying services -- approximately 52% -- than to buying products.

At that hearing, the Panel heard from our witnesses that in service contracting, knowledge of the marketplace and robust performance assessment were critical to success. Notably, that means that one of the essential keys to success in contracting for services is in the government being equipped to do its job properly in selecting the right contractor, assigning the right work, and then overseeing how the work is done. So for today's hearing, we start with the simple hypothesis that the government's success in contracting for services will be largely determined by whether it properly staffs, manages, and administers the contract. We'll test this hypothesis by hearing from today's capable witnesses about specific service contracts of their service and what has and hasn't worked.

Congress has attempted to provide some guidance over service contracts in recent defense authorization acts. In FY2002, we required a management structure for the procurement of services that is comparable to that established for the procurement of products. , the Air Force has established a Program Executive Officer for Combat and Mission Support who is responsible for management and oversight of high dollar value service contracts for the Air Force. And our Air Force witness this morning, General Masiello, now heads that office and will discuss several Air Force service contracts.

The Navy's SeaPort is a multiple award contract, which initially encountered criticism because of concern over its potential negative impact on the ability of small businesses to compete for future Navy contracts. An enhanced SeaPort contract appears to have addressed many of the concerns. But it would be helpful to understand why the Navy decided this contract type was in the best interests of the taxpayer, and what safeguards have been put in place to measure outcomes and achievement of performance objectives, along with any contracting challenges the Navy may continue to face.

Both the Air Force and Army have opted for logistics augmentation contracts that provide contractor support as a force multiplier for operations anywhere in the world. According to the General Accountability Office, results of the Air Force Contract Augmentation Program, or AFCAP, have been mixed. AFCAP was the first of these contracts to move to a multiple vendor structure, and GAO found that guidance requiring well-defined statements of work was generally followed. Yet, oversight of AFCAP suffers from the lack of trained personnel.

The more widely known, highly scrutinized and more troubling program has been the Army's Logistics Civil Augmentation Program, or LOGCAP. The original LOGCAP contract was awarded to a single vendor in 1992 for work in Bosnia and the surrounding region. Use of LOGCAP in Iraq is the largest effort under this contract, both in number of troops supported and in land mass covered. Unfortunately, from the outset, neither the contractor nor the Department was prepared for the size of the effort, which was made more difficult by the hostile environment. In fact, LOGCAP is as large as many major procurement programs, yet it was never viewed as a "program" but simply as a "run of the mill" service contract. However, in a 2005 report, GAO noted that high level DOD coordination was needed to improve the management of LOGCAP.

This leads me to repeat the question in our hearing title – what works and what doesn't work in managing service contracts? For service contracts of the size and effort of a LOGCAP, should a formal "program office" be established along similar lines as those established for major procurement programs, with well-defined performance metrics? What makes a SeaPort multiple award contract a seeming success and a LOGCAP such a dismal failure? And, are we learning from our mistakes to make mid-course corrections as well as be better prepared for the future? With service contracts accounting for more than 50% of DOD's acquisition budget, these questions, and a host of others, must be answered.

I thank our witnesses in advance for their excellent testimony and their willingness to join us at this early hour.

I now turn to Mr. Conaway for any remarks he may wish to make.

**Statement of Rep. Conaway Hearing of the
Defense Acquisition Reform Panel
on
“Managing Service Contracts: What Works and What
Doesn’t”
July 16, 2009**

Good morning, Mr. Chairman, ladies and gentlemen. I would like to thank our witnesses for taking time out of their busy schedules to be with us this morning.

This is our second panel hearing on service contracting. Our first hearing was in April and it looked at the issue of measuring value in services contracting. The focus of today’s hearing is to learn what works and what doesn’t work in regards to managing service contracts.

As mentioned in our April hearing, the Department of Defense now spends more of its budget on services than on products—which includes weapons systems. And as the General Accountability Office (GAO) has reported in numerous reports, the management and

execution of service contracts is not like managing and executing weapon system contracts. In its 2006 report, GAO noted that “successful service acquisition management requires attention to the organization’s ability to move from a fragmented manner of doing business to one that is more coordinated and strategically oriented. Primarily, this involves changing how services are acquired in terms of business processes, organizational structures, and roles and responsibilities.”

Based on all of the written statements, I believe to some extent that our witnesses would agree with this statement, and I certainly welcome your comments if you don’t agree. In reading your pre-submitted testimony, one theme that stood out was the need for oversight and management after the contract is awarded. This could mean focusing our efforts on adding more qualified and trained personnel, but not necessarily.

I look forward to hearing from our witnesses and gaining their insights into this critical issue.

Thank you Mr. Chairman.

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE COMMITTEE ON ARMED SERVICES
DEFENSE ACQUISITION REFORM PANEL
UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: MANAGING SERVICE CONTRACTS: WHAT WORKS AND
WHAT DOESN'T?

STATEMENT OF: BRIGADIER GENERAL WENDY M. MASIELLO
AIR FORCE PROGRAM EXECUTIVE OFFICER FOR COMBAT
AND MISSION SUPPORT

July 16, 2009

NOT FOR PUBLICATION UNTIL RELEASED
BY THE COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

Chairman Andrews, Congressman Conaway, and distinguished members of the Defense Acquisition Reform Panel, I thank you for this opportunity to discuss the latest efforts in the Air Force oversight and management of service contracts. The Air Force Program Executive Officer for Combat and Mission Support (AFPEO/CM) was established in February 2002 in response to the FY02 National Defense Authorization Act requiring a management structure for procurement of services comparable to the structure for procurement of products and designation of an official to be responsible for management of the procurement of services. The PEO provides a management structure for pre- and post-award efforts greater than or equal to \$100 million. Currently, we track 170 Service programs with a potential value of \$152 billion. The scope of our portfolio is broad and includes everything from base operating support to weapons system sustainment to information and advisory and assistance services efforts.

While our office previously strengthened the processes in the pre-award phase, last year we increased our attention on post award oversight and management.

Specifically, we wanted to know if we are getting what we are paying for and what our contractors had committed to in their proposals, what mechanism we have in place to ensure we are getting what we want, and what we can do to improve our ability to match requirements to contractor expectations and delivery. Additionally, in an unprecedented way, we've engaged senior leadership in Service Acquisition oversight across the Air Force. This higher-level focus has enabled a more strategic decision making process whether it be across a major command or the Air Force enterprise.

As we've become more familiar with our Services requirements across the Air Force, we've noted several truths which drive our contract types and strategies which you are specifically interested in today. First, our Federal Acquisition Regulations give us a continuum of contract types. Not a single contract type is best in all circumstances—the requirement should define the contract type. Second, even then, our stretched workforce needs coaching in how to best apply and manage the various contract types available. Finally, like our major weapon systems, Services Acquisition success depends on the active involvement of those whose mission is being enhanced by contracted service providers.

In the following examples I will show you how applying these lessons learned to three of our service programs have resulted in better contracts, improved contractor performance and provided a better value to the taxpayer.

The first example is the Intelligence, Information, Command and Control, Equipment and Enhancement (ICE2) contract valued at \$3.1 billion which provides worldwide sustainment and technical support for intelligence and command & control national security systems. In 1973, the Air Force assumed the role of Single Service Logistics Manager for supporting 40 data processing stations. Today, that customer base includes the Defense Intelligence Agency (DIA), Army, Navy, Marines, Air Force and others at over 500 locations in 150 countries. During a post-award review for this single award, indefinite delivery, indefinite quantity (ID/IQ) effort, we discovered several things: the demands of the post-911 environment had exhausted the available ceiling on this time and material contract much faster than anticipated; staffing for adequate oversight of this huge contract never caught up with the demand; and while only 20% of

the total effort the Air Force had absorbed the full cost of awarding, managing, and administering the ICE2 contract. To address these issues, the Air Force made arrangements for the Defense Intelligence Agency to assume the Single Service Logistics Manager and contracting responsibilities for the ICE2 follow-on effort and garnered funding from DIA for three personnel positions to improve program oversight and management during the two year transition. Most significantly, because we were bumping up on our contract ceiling before a fair competition could be established for DIA's follow-on effort, we worked with the ICE2 prime contractor to get sufficient cost insight for a final two years of labor rates. The result was a 25% reduction in fixed labor rates producing a \$145 million increase in buying power in the final two years of the Air Force contract.

My next example of improving contract strategies by studying the post-award environment, is the \$10.1 billion multiple award ID/IQ Contract Field Teams (CFT) contract. Established in 1951, the current CFT program provides worldwide weapon system maintenance augmentation services to all branches of the Department of Defense and other Federal agencies. The predecessor program had four contractors and six contracting people overseeing this 100% time and material effort. Today, the CFT program offers eleven contractors and has a multifunctional oversight team of 28 establishing better business arrangements and providing more robust oversight and administration. Since the October 2008 award of the new CFT contracts, nearly one-fourth (23.3%) of dollars awarded are Firm Fixed Price. With eleven prime contractors, task order competition has increased markedly and resulted in over 65% of the tasks being awarded to other than incumbents while realizing savings of over \$100 million in

this fiscal year 2009 alone! Additionally, four of the eleven prime contracts were awarded to small businesses with tasks worth \$48 million to date in FY09. In less than one year, the CFT Program Office, with the Defense Contract Management Agency's help, has successfully assisted a large CFT population at over 280 sites worldwide in the shift from a 57 year old way of doing business to a new performance based environment characterized by more clearly defined requirements, optimal business arrangements, increased utilization of small business capabilities, and more robust oversight and contract administration. One of the new tools enabling these improvements is a web-based, online program providing consistent basic training and tracking of field oversight quality assurance and on-site project officer personnel. Importantly, the CFT's Program Office's leadership facilitates this fundamental change in government oversight by linking CFT leadership's performance evaluations to their efforts to standardize processes and procedures reducing variation and waste in those processes.

The last example of Air Force services management and how we have modified our approach to align with circumstances is on the Air Force Contract Augmentation Program (AFCAP) III. This program provides ready response to contingencies throughout the world for a diverse set of government activities—everything from base infrastructure for our deployed airman in Iraq to mattresses for Georgian refugees in support of USAID. While AFCAPs I and II (1997-2005) were originally awarded as a single source, cost reimbursable award fee contracts, AFCAP III now offers a multiple award ID/IQ program with five contractors and a broad range of contract types to best serve its diverse requirements. This flexibility is bounded by a centralized ordering

process that vets the strategy and need against the spectrum of available contract types. While last year saw a mix of contract types, in fiscal year 2009 the majority of orders have resulted in fixed price tasks, and over 93% of these tasks were competed.

We believe one of AFCAP's strengths is its three-pronged post-award management process which helps us calibrate and improve subsequent task competitions. The first prong is the use of quality assurance evaluators (QAEs) who are assigned and trained, prior to task order award, to oversee the tasks execution. The QAEs provide "on-scene" technical expertise coupled with general knowledge of overseeing contracts and specifics on the contract execution. The second prong of the post-award program when large contingency operations are involved is a small staff of forward deployed program managers to facilitate oversight in the area of responsibility. These program managers' communications between the State-side contracting officer, the in-Theater contracting officer, QAEs, and the requiring activity ensure the task reflects the requirement and that the contractor is delivering as promised. The final prong in AFCAP's post-award arsenal is its dedicated contracting officers. While DCMA has some administrative duties, the Air Force procuring contracting officer retains active post award involvement to ensure consistency and continuity as unique situations arise during contract performance. This team approach facilitates evaluation of contractors' performance on each task which serves as a key evaluation criteria for future task orders.

In summary, rather than defining a preferred contract type for services contracts, the Air Force is beginning to move away from viewing Services acquisition as merely "contracts", but rather as multi-functional "programs". By better preparing and engaging our functional experts in defining service requirements and acquisition strategies, in

source selections, and in post-award oversight, we find we are improving competition, getting better prices, increasing attention on small business participation and actually linking our large dollar service programs to Air Force strategic roadmaps and vision. Since this mindset is just a year and half fresh, much of our success is anecdotal at this point, but when I have a sitting Wing Commander say "tell me more" I know we're heading in the right direction as PEO/CM helps our Air Force recapture acquisition excellence in contracted services.

BRIGADIER GENERAL WENDY M. MASIELLO



BIOGRAPHY

UNITED STATES AIR FORCE

BRIGADIER GENERAL WENDY M. MASIELLO

Brig. Gen. Wendy M. Masiello is the Program Executive Officer for Combat and Mission Support, Office of the Assistant Secretary of the Air Force for Acquisition, Washington, D.C. She leads the acquisition of Air Force services and is responsible for more than \$100 billion in existing and planned contracts across the Air Force. She oversees acquisition planning, the competitive selection process and execution of performance-based acquisition, and she ensures proper management controls are in place throughout performance of contracted services.

General Masiello was commissioned in December 1980 as a distinguished graduate of the ROTC program at Texas Tech University. She has held a variety of systems acquisition roles including principal contracting officer for surveillance and reconnaissance systems, weapon systems and test ranges. She was an assistant professor at the Air Force Institute of Technology and Executive Director for the National Reconnaissance Office Inspector General. She has also served several staff tours including Deputy Director of Plans and Programs and Director of Contracting at two systems acquisition centers.



General Masiello has commanded an air base wing, and from July 2005 through January 2006, she deployed to Iraq as Principal Assistant for Contracting Forces in Iraq/Afghanistan. Her responsibilities included contracting and acquisition support to forces in both countries, security transition support in Afghanistan, and humanitarian relief following the Pakistani earthquake. Prior to her current assignment, she was Associate Deputy Assistant Secretary (Contracting), Office of the Assistant Secretary of the Air Force for Acquisition.

EDUCATION

1980 Bachelor of Business Administration degree in marketing, Texas Tech University, Lubbock
 1984 Master of Science degree in logistics management (contracting and manufacturing management), Air Force Institute of Technology, Wright-Patterson AFB, Ohio
 1986 Distinguished graduate, Squadron Officer School, Maxwell AFB, Ala.
 1993 Distinguished graduate, Air Command and Staff College, Maxwell AFB, Ala. 1995 Program Management Course, Defense Systems Management College, Fort Belvoir, Va.
 1999 Distinguished graduate, Master of Science degree in national resource strategy, Industrial College of the

BRIGADIER GENERAL WENDY M. MASIELLO

Armed Forces, Fort Lesley J. McNair, Washington, D.C.

1999 Senior Acquisition Course, Industrial College of the Armed Forces, Fort Lesley J. McNair, Washington, D.C.
2007 Joint and Combined Warfighting School, Joint Forces Staff College, Norfolk, Va.

ASSIGNMENTS

1. March 1981 - May 1983, procurement and production officer, Air Force Plant Representative Office, General Electric Space Systems Division, King of Prussia, Pa.
2. June 1983 - September 1984, student, Air Force Institute of Technology, Wright-Patterson AFB, Ohio
3. October 1984 - September 1987, instructor, Quantitative Contract Analysis, Air Force Institute of Technology, Wright-Patterson AFB, Ohio
4. October 1987 - September 1988, Air Staff Training officer, Tactical Programs and Space and Strategic Defense Directorates, Office of the Secretary of the Air Force (Acquisition), Washington, D.C.
5. October 1988 - July 1992, Deputy Director, Contracting Branch, Office of Special Projects, Office of the Secretary of the Air Force, Los Angeles, Calif.
6. July 1992 - June 1993, student, Air Command and Staff College, Maxwell AFB, Ala.
7. July 1993 - September 1996, Executive Director, Office of Inspector General, National Reconnaissance Office, Chantilly, Va.
8. October 1996 - July 1997, Deputy Chief, Weapons, Air Base and Range Contracting Division, Air Base and Range Program Office, Eglin AFB, Fla.
9. August 1997 - July 1998, Chief, Advanced Medium Range Air-to-Air Missile Contracting Division, Air-to-Air Joint Systems Program Office, Eglin AFB, Fla.
10. August 1998 - June 1999, student, Industrial College of the Armed Forces, Fort Lesley J. McNair, Washington, D.C.
11. July 1999 - October 2000, Deputy Director, Plans and Programs, Air Armament Center, Eglin AFB, Fla.
12. October 2000 - July 2002, Director of Contracting, Air Armament Center, Eglin AFB, Fla.
13. July 2002 - December 2002, Vice Commander, 95th Air Base Wing, Edwards AFB, Calif.
14. December 2002 - July 2004, Commander, 95th Air Base Wing, Edwards AFB, Calif.
15. July 2004 - September 2006, Director of Contracting, Aeronautical Systems Center, Wright-Patterson AFB, Ohio (July 2005 - January 2006, Principal Assistant for Contracting Forces in Iraq/Afghanistan, Joint Contracting Command - Iraq/Afghanistan, Baghdad, Iraq)
16. September 2006 - August 2007, Associate Deputy Assistant Secretary (Contracting), Office of the Assistant Secretary of the Air Force for Acquisition, Washington, D.C.
17. August 2007 - present, Program Executive Officer for Combat and Mission Support, Office of the Assistant Secretary of the Air Force for Acquisition, Washington, D.C.

MAJOR AWARDS AND DECORATIONS

Legion of Merit
Bronze Star Medal
Defense Meritorious Service Medal with oak leaf cluster
Meritorious Service Medal with two oak leaf clusters
Air Force Commendation Medal
Joint Service Achievement Medal with oak leaf cluster
Air Force Achievement Medal
Global War on Terrorism Service Medal

OTHER ACHIEVEMENTS

Leadership Award, Air Command and Staff College

EFFECTIVE DATES OF PROMOTION

Second Lieutenant Feb. 6, 1981
First Lieutenant Feb. 6, 1983
Captain Feb. 6, 1985
Major April 1, 1993
Lieutenant Colonel Jan. 1, 1997

BRIGADIER GENERAL WENDY M. MASIELLO

Colonel May 1, 2002

Brigadier General Nov. 27, 2007

(Current as of November 2007)

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RECORD VERSION

STATEMENT BY
MR. JEFFREY P. PARSONS
EXECUTIVE DIRECTOR
U.S. ARMY CONTRACTING COMMAND
U.S. ARMY MATERIEL COMMAND
BEFORE THE
PANEL ON DEFENSE ACQUISITION REFORM
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
ON ARMY CONTRACTING
JULY 16, 2009

NOT FOR PUBLICATION
UNTIL RELEASED
BY THE COMMITTEE
ON ARMED SERVICES

Introduction

Chairman Andrews, Congressman Conaway, and distinguished members of the Defense Acquisition Reform Panel: Thank you for this opportunity to discuss the Army's initiatives to improve service contracting. We are pleased to report that these initiatives enable our contracting mission to be agile, expeditionary, and responsive to our warfighters, while ensuring proper fiscal stewardship of taxpayer dollars. We are pleased to report to you that we have increased the resources devoted to oversight of services contracts and have also developed improved techniques for evaluating and managing those contracts to provide good value to the taxpayer and effective support to deployed warfighters. The Army has improved its Contracting Officer Representative (COR) program, has a plan in place to increase the number of personnel in the contract administration area, and has improved its ability to inspect the worldwide contracting offices that execute the Army's acquisition program. In addition, the Army has increased the rigor of its acquisition process to focus on obtaining better values from the service contracts it awards.

One of the primary service contracts the Army uses to support deployed warfighters is the Logistics Civil Augmentation Program (LOGCAP). LOGCAP is an initiative by the United States Army to pre-plan during peacetime for the use of civilian contractors to perform selected services in wartime and other contingencies to augment U.S. Forces in support of Department of Defense (DoD) missions. LOGCAP can also provide support to other U.S. military services, coalition and/or multinational forces, and other government/non-government agency components in support of joint, combined, coalition and multinational operations. This includes operations other than war, such as

disaster relief, peacekeeping or humanitarian assistance missions. We are pleased to report that the Army, through LOGCAP, has provided quick reaction support for operations worldwide including operations in very austere conditions.

Discussion

To assist the Panel with their understanding of the current LOGCAP IV contract, I think it's important to give a brief overview of the history of the contracts that have supported the program.

In 1992, the Army competitively awarded the first multifunctional logistics support contract, now known as LOGCAP I, to Kellogg, Brown and Root. This contract was established as a force multiplier with a wide range of logistics services. The LOGCAP I contract was used in support of military operations in Somalia, Rwanda, Bosnia, Haiti, and East Timor and ended with a value of \$811 million over the 5 years of the contract.

In 1997, the Army competitively awarded a follow-on contract, LOGCAP II, to DynCorp Service, Inc. The demand for LOGCAP services during this timeframe (1997-2001) was fairly low, with relatively small efforts performed in Panama, Columbia, East Timor and the Philippines. Expenditures after five years under LOGCAP II totaled approximately \$102 million.

The LOGCAP III contract was awarded on December 14, 2001, to Kellogg, Brown and Root Services (KBR) as a result of a competitive best value source selection. The contract is an Indefinite Delivery, Indefinite Quantity (IDIQ) contract with one base year and nine option years. We are currently in the seventh option year. If all options were to be exercised against this contract, it would expire in December 2011. It is the largest service contract in the Army with over \$32 billion obligated on more than

160 task orders to date. The contract allows for a variety of task order types including Firm-Fixed-Price (FFP), Cost-Plus-Award-Fee (CPAF), Cost-Plus-Fixed-Fee (CPFF), and Cost-Plus-Incentive-Fee (CPIF). Current task orders provide for services in Iraq, Afghanistan, Kuwait, and the Republic of Georgia. The LOGCAP III contract will remain in effect until all services can be transitioned to LOGCAP IV.

When the Army awarded the LOGCAP III contract to Kellogg, Brown and Root in December 2001, there was no prediction that we would execute the level of requirements that we have experienced to date. The requirements placed on the LOGCAP III contract to support the Overseas Contingency Operations have dwarfed the combined efforts on all previous LOGCAP Contracts. In the first four years of LOGCAP III, obligations exceeded previous efforts by almost 300-fold and grew to over \$14 billion by October 2005.

These dramatic increases in the level of effort of the LOGCAP III contract coupled with the challenges and problems that resulted from this rapid expansion, some of which I will discuss later in my remarks, made it clear to the Army that it needed to develop and execute a new contract strategy to support the Soldier. Consequently, in mid 2004 the Army Sustainment Command began development of a strategy to put in place a contracting approach that would incorporate the lessons learned during all previous LOGCAP contracts and enhance our ability to support future efforts. The primary objectives of the new LOGCAP IV acquisition strategy were to reduce program risk, increase capacity, and incentivize contract performance. After extensive coordination with the Department of Defense, sister Services, Combatant Commands,

and Industry, the Army determined the best acquisition approach was to competitively award a single LOGCAP support contract and three LOGCAP performance contracts.

The Army awarded the LOGCAP support contract to Serco on February 16, 2007, to obtain support services such as planning, requirements analysis, cost estimating, logistics management, and management analysis in support of the LOGCAP program and contracting offices. This support covers both the LOGCAP III and LOGCAP IV contracts.

In addition, the Army awarded three IDIQ LOGCAP IV performance contracts to DynCorp International, Fluor Intercontinental, and KBR respectively, on June 27, 2007. Performance on those contracts did not begin until April 27, 2008, after protests to the Government Accountability Office (GAO) were resolved. Under LOGCAP IV, all three contractors compete for individual task orders that are issued as the need for support in a particular location is defined. Eight task orders have been awarded to date, including five task orders for performance and three task orders for project management offices (one for each contractor.) Services are transitioned from LOGCAP III to LOGCAP IV as task orders are awarded. In addition to protests against the award of the basic contracts, five of the eight task orders issued or awarded to date under LOGCAP IV have been protested. Before May 27, 2008, protests against the issuance or proposed issuance of a task or delivery order under an IDIQ contract were not authorized except on the grounds that the order exceeded the scope, performance period or maximum value of the contract. The enactment of Section 843 of the National Defense Authorization Act for Fiscal Year 2008, Public Law 110-181, "Enhanced Competition Requirements for Task and Delivery Order Contracts" significantly expanded that

protest authority by allowing a protest on any grounds for task or delivery orders valued in excess of \$10 Million. That change has had a significant impact on LOGCAP IV awards and transition milestones.

LESSONS LEARNED

The Army used its experience from LOGCAP I, II and III to develop not only a new acquisition strategy but also a new program strategy on how to execute and administer LOGCAP IV. Eliminating a single point of failure by awarding three contracts was just one of many improvements we made in LOGCAP IV. We realized early on that a number of problems we experienced in LOGCAP III were directly related to the overtaxed business systems and how the prime contractor managed its subcontracts. Examples of problems included issues with the prime contractor's estimating system resulting in delayed submission of proposals and undefinitized contract actions; issues with accounting and billing systems resulting in less accurate cost reports, multiple accounting entries and credits, delayed billing, and payment suspensions; and issues with the prime contractor's purchasing system, resulting in improper subcontractor awards and inadequate subcontractor management. Because of those issues under LOGCAP III, we emphasized the importance of business systems in the LOGCAP IV source selection by including business systems and subcontractor management as specific source selection criteria. We also incorporated a two tiered approach to award fee in the LOGCAP IV contracts that places additional emphasis on business systems during contract performance. The approach segregates 15 percent of the total award fee pool specifically for "first tier" corporate management, corporate business systems, and small business subcontracting. The balance of the pool is then used for the

"second tier" activities, relating to evaluation of technical performance, project management, and cost and schedule control. First tier boards will be conducted annually and second tier (operations) boards will be conducted bi-annually.

Another area of improvement in LOGCAP IV contracts concerns award fee. The LOGCAP III contract had an available award fee of 3 percent. Typically, a contract with requirements as rapidly changing and complex as LOGCAP requirements would warrant a fee of 7 to 10 percent to provide a contractor with a "normal" return on investment commensurate with performance risk. Under LOGCAP IV, contractors propose fee as part of the task order competitions. Using this process, all contractors have the opportunity to assess performance risk of each task order, and propose a level of fee appropriate to the risk. This is consistent with Federal Acquisition Regulation direction to "offer contractors opportunities for financial rewards sufficient to stimulate efficient contract performance, attract the best capabilities of qualified large and small business concerns to Government contracts, and maintain a viable industrial base."

At the highest operational tempo of LOGCAP III performance, we processed a deviation to FAR 52.216-26. This clause imposes a limitation on reimbursements for undefinitized letter contracts to 85 percent of costs incurred. One purpose for the limitation is to incentivize contractors to submit cost proposals in a timely manner. In early 2004, the issue of "withholding" 15 percent arose in part because of the large number of overaged undefinitized contract actions (UCAs). There were approximately 55 undefinitized contract actions on the LOGCAP contract at that time. The Army determined the deviation necessary because the limitation on reimbursement on the LOGCAP contract would have a significant negative impact to contract performance if

applied, posing serious risk to the contractor's ability to support the warfighter. All overage UCAs were definitized by March 31, 2005, and there have been no overage UCAs on the LOGCAP contract since that time. The deviation expired January 31, 2007, and was not extended. Having multiple LOGCAP IV contractors lessens the probability that the contractors will become overwhelmed by increases in requirements. In addition, the emphasis on contractor business systems, as well as the requirement for task order competitions makes a scenario of large numbers of UCAs on LOGCAP IV very unlikely. Another area we improved in the LOGCAP IV contracts relates to the generation of requirements. Clearly, definition of requirements can be difficult in the best of circumstances and is even more challenging in contingency and high operations tempo (OPTEMPO) environments. The Performance Work Statements on the LOGCAP III contract have evolved in a single award environment over a long period of time based on daily interaction between the incumbent contractor and the Government. Because the LOGCAP IV task orders are competed among the three contract holders, the performance work statements must be written in a manner that allows a common understanding among the competing contractors. We created a standard structure for performance work statements to promote consistency and clarity in work descriptions. In addition, we have embedded logistics support officers in the requiring activities to help our customers "put pen to paper" and translate their needs into proper statements of work.

Lessons learned from LOGCAP III are embedded into LOGCAP IV in how the Program is executed. Numerous improvements are underway to improve internal practices. One such improvement was the development of a Prime Value Chain and a

Programmatic strategy with the aim of improving readiness, quality, and efficiency in LOGCAP provided services. The strategic assessment defines program constraints and issues that limit program efficiency. We also have a framework for key strategic and operational program design and an implementation plan that describes critical implementation plans and tasks. We are working with senior Department of the Army and the Army Materiel Command military and civilian leaders and other key stakeholders through a General Officer Steering Committee (GOSC) to review doctrine and resourcing. The first meeting of the GOSC was held on April 23, 2009, and chaired by the Deputy Chief of Staff of the Army for Logistics. The GOSC established two working groups to 1) determine the most effective means of sustaining and empowering the LOGCAP Program, and 2) refining LOGCAP's scope, and future roles and responsibilities.

The Army sees LOGCAP as the future for its civil augmentation program, especially as it relates to Overseas Contingency Operations. For LOGCAP to support the Army and its Title 10 responsibilities, several actions are being taken. These actions include re-structuring the program to ensure that we have the right numbers of people with the right skills. This organization only had 19 Department of the Army Civilians authorized since its inception. Their primary mission was to train units for pre-deployment, participate in deploying unit's exercises, provide reach back support to forward deployed offices, and stand ready to respond to events worldwide. The organization is augmented by our support contractor both stateside and overseas in our forward deployed sites in Kuwait, Iraq, and Afghanistan and with the Army Service Component Commands.

We are reaping the benefits of teaming with our partners in DCMA and DCAA to provide a true multi organizational team approach to contract management. Improvements in the Army expeditionary contracting structure, including incorporation of planning cells within our Contracting Support Brigades, provide a vital connection with our customers on the ground. Army officials have placed additional emphasis on the very important role of the Contracting Officer's Representative (COR). The COR acts as the "eyes and ears" of the contracting officers, ensuring that the government is getting the best value for the dollars spent.

We continue to share our lessons learned on the LOGCAP contract with those who are drafting Army doctrine and training so we can continually identify gaps or changes needed in our doctrine, organization, training, materiel, leader development, personnel, and facilities assessments.

Conclusion

Let me assure you that the Army Contracting Command is committed to excellence in all contracting, including these very complex and critical LOGCAP contracts. We continue to collect lessons learned and make improvements and adjustments along the way to ensure mission success and protection of the interests of the U.S. Government and taxpayer. As stewards of the taxpayers' dollars, the Army is committed to excellence in managing and documenting contractor performance and the overall discipline of contract administrative services. With service contracts representing an ever increasing percentage of our overall contract dollars, greater emphasis is rightfully being placed on their management and oversight. This includes documenting the contractor's current and past performance and developing key metrics related to

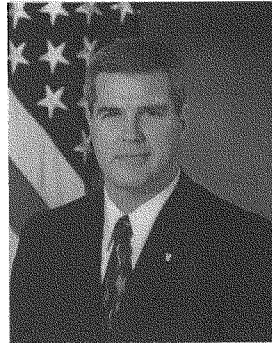
cost, schedule and performance during acquisition planning that focus on value delivered to the Army and tracking those metrics as part of contract administration and oversight. Those metrics are key early warning signals to program officials as they are the first indicators that a program is in trouble- be it from technical difficulties beyond the contractor's control due to changes in the operating environment caused by war related issues or problems directly related to contractor performance. We believe this will allow us to react earlier and take corrective actions at the most cost effective point which will help improve services delivery.

Despite exceptionally hard circumstances, the Army's contracting and acquisition staff has made improvements in the strategic management of Army requirements and specifically has better insight into the values being delivered under key service contracts. We believe with improved staff levels in contract administration this trend will continue. The Army is dedicated toward executing its warfighting mission while simultaneously protecting the taxpayer's interest. It is my honor to lead the contracting team as we persevere to achieve those goals.

Thank you for inviting me to speak with you today. This concludes my statement.

MR. JEFFREY P. PARSONS
Executive Director
U.S. Army Contracting Command
Fort Belvoir, Virginia

Mr. Jeffrey P. Parsons is the Executive Director of the U.S. Army Contracting Command, a new major subordinate command of the U.S. Army Materiel Command (AMC). The Army Contracting Command provides global contracting support to the operational Army across the full spectrum of military operations and in garrison. Mr. Parsons commands over 5,500 military and civilian personnel worldwide, who award and manage over 270,000 contractual actions valued at more than \$80 billion per fiscal year. He exercises command and procurement authority over two subordinate commands, the Installation Contracting Command and the Expeditionary Contracting Command, and also leads the AMC Acquisition Centers which support AMC's other major subordinate commands and Life Cycle Management Commands. Mr. Parsons was appointed to the Senior Executive Service on December 15, 2003.



Prior to assuming his current position, Mr. Parsons served as the Director of Contracting, Office of Command Contracting, Headquarters, AMC, Fort Belvoir, Virginia. Responsibilities from the Office of Command Contracting transitioned into the Army Contracting Command. Mr. Parsons continues to serve as the Principal Advisor to the Commanding General of AMC and his staff on all contracting matters and as the AMC Career Program Manager for the Contracting and Acquisition Career Program, with responsibility for the recruitment, training, education, and professional development of the civilian and military contracting professionals who are part of the acquisition workforce.

Prior to his appointment to the Senior Executive Service, Mr. Parsons was the Director of Contracting, Headquarters, U.S. Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio, where he retired from active duty as an Air Force Colonel after 26 years of service. He was responsible for developing and implementing contracting policies and processes to annually acquire \$34 billion in research and development, production, test, and logistics support for Air Force weapon systems. He was directly responsible for the training, organizing, and equipping of more than 3,000 contracting professionals.

Mr. Parsons' contracting career began in 1977 as a base procurement officer supporting the 90th Strategic Missile Wing at F. E. Warren Air Force Base, Wyoming. He held a variety of positions as a contracting officer with a wide range of experience touching on all aspects of systems, logistics, and operational contracting. He was the Director of Contracting for a multi-billion dollar classified satellite program operated by the National Reconnaissance Office and served twice as a plant commander in the Defense Contract Management Agency. Mr. Parsons also held several key staff positions at Headquarters, U.S. Air Force, the Air Force Secretariat, and with the Office of the Secretary of Defense, in which he was responsible for the development, implementation, and management of integrated, coordinated, and uniform policies and programs to govern DoD procurement worldwide.

Mr. Parsons received his bachelor's degree in Psychology from St. Joseph's University, Philadelphia, Pennsylvania, and holds two masters degrees – one in Administration with a concentration in Procurement and Contracting from George Washington University, Washington, D.C., and the other in National Resource Strategy from the National Defense University. He is a graduate of the Industrial College of the Armed Forces and the Defense Systems Management College Executive Program Management Course. Mr. Parsons holds the Acquisition Professional Development Program's highest certifications in contracting and program management. He also is a Certified Professional Contracts Manager, National Contract Management Association.

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HOUSE ARMED
SERVICES COMMITTEE

STATEMENT OF
MR. JEROME PUNDERSON
DIRECTOR OF CONTRACTS
NAVAL SEA SYSTEMS COMMAND
BEFORE THE
HOUSE ARMED SERVICES COMMITTEE
DEFENSE ACQUISITION PANEL
ON
SERVICES CONTRACTING

16 JULY 2009

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HOUSE ARMED
SERVICES COMMITTEE

Chairman Andrews and distinguished Members of the Defense Acquisition Reform Panel, I want to thank you for the opportunity to testify today about the Navy's SeaPort-e program. I am the Director for Contracts of the Naval Sea Systems Command. While I am no longer Program Manager, as Director of Contracts, one of my responsibilities is to oversee the SeaPort-e program and to ensure appropriate oversight of this contract vehicle. The SeaPort-e program office is responsible for ensuring that the web-based portal is operational, awarding the multiple-award contracts, negotiating any enhancements to the portal, and coordinating issues or concerns from the Governance Council. The Governance Council consists of representatives from each of the ordering activities authorized to use SeaPort-e. The Governance Council developed the business rules by which SeaPort-e operates and continues to vet proposed changes and enhancements to Seaport-e.

My past positions have included Director, Undersea Systems Contracts Division, where I was responsible for the procurement of the AEGIS Ballistic Missile Defense system, the DoN Converged Enterprise Resource Planning (C-ERP) systems, and many undersea systems, resulting in \$3.0 Billion in annual obligations. Prior to that, I was the Director, Surface Systems Contracts Division, responsible for the procurement of major weapon systems. I also served as the Program Manager for the SeaPort-e contract vehicle, a strategic approach to acquisition of services emphasizing affordable and timely procurement of services through a completely electronic web-based marketplace. I led the expansion of SeaPort-e to the Navy Virtual Systems Command (SYSCOM) comprised of Naval Sea Systems Command (NAVSEA), Naval Air Systems Command (NAVAIR), Space and Naval Warfare Systems Command (SPAWAR), Naval Supply Systems Command (NAVSUP) and Naval Facilities Engineering Command (NAVFAC), where services valued at up to \$5.3 Billion annually may be procured using these

vehicles. SeaPort-e provides the Navy with the services it needs while encouraging competition and small business involvement with the Navy.

SeaPort-e is a set of indefinite delivery, indefinite quantity (IDIQ) multiple award contracts (MACs) which represent the Navy's enterprise solution to acquiring engineering, financial and program management, logistics, information technology and other types of support services. SeaPort-e is enabled via an electronic, web-based platform that provides a means to electronically compete, award and administer task orders issued under the SeaPort-e MACs. This paperless system promotes efficiency and a reduction in administrative costs for both the Government and Contractors. Under SeaPort-e, there are seven geographic zones in which work is competed, based on the principal place of performance of the work. Offerors propose at the MAC level to compete for work in whichever zones they have a presence, based on the criteria set forth in the Request for Proposals (RFP).

In 2001, SeaPort began as NAVSEA's business model to rationalize spending across four common support service areas. At the time, NAVSEA had more than 350 support service contracts supporting its Directorates, Program Executive Offices (PEOs), and field activities at the Headquarters (HQ) activities and even more in the various Warfare Centers. These contracts were not integrated and inconsistent processes were used to obtain the services through the various Directorates and PEOs.

In 2004, the concept was expanded both to increase the functional areas to 22, derived from the types of services procured across the Navy, including field activities, and to expand the

ordering activities from just NAVSEA HQ to all Navy organizations. This expansion is known as SeaPort-e (SeaPort enhanced). SeaPort-e annually adds vendors through a process known as Rolling Admissions. To date, there have been five Rolling Admissions, the latest one in December 2008 at the request of the Small Business Administration to add additional 8(a) firms. The Navy SYSCOMs (NAVSEA, NAVAIR, SPAWAR, NAVFAC, and NAVSUP), the Office of Naval Research (ONR), the United States Marine Corps, and the Defense Threat Reduction Agency (DTRA) compete their service requirements amongst 1800+ SeaPort-e MAC holders. DTRA was added in 2008 as an authorized ordering activity. DTRA is the only non-Navy ordering activity, and was added based on their size and centralized contracting function.

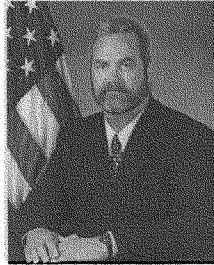
The SeaPort-e portal provides a standardized, efficient means of soliciting offers from amongst the diverse population of large and small businesses and their approved team members. All task orders are competitively solicited, awarded and managed using the SeaPort-e platform. Since nearly 85% of its contract-holders are small businesses, the SeaPort-e approach to acquiring services provides opportunities for many small companies thereby bringing to the Navy diverse ideas and concepts. This benefits the Navy and encourages job growth in the nation. For example, since the inception of SeaPort-e, 47% of the approximately 1700 competitively awarded task orders under SeaPort-e were to small businesses. Approximately \$3 Billion has been obligated to small businesses as prime contractors. Additionally, at the subcontract level, small businesses have been awarded approximately \$2 Billion.

The SeaPort-e MAC contracts are structured as a five-year base contract ordering period with an additional five-year ordering period, which may be earned based on contractor

compliance with procedures. The period of performance of a task order awarded under the SeaPort-e Multiple Award IDIQ contracts may not exceed 5 years, including all options and award terms. During the contract performance period, Navy monitors and oversees the administration of these contracts to ensure receipt of services in a timely manner. We oversee these contracts by requiring task orders be included as part of the internal review processes executed at the individual ordering activities by the respective Heads of Contracting Activity (HCAs). SeaPort-e ordering activities do not report to the SeaPort-e program manager. Each ordering activity is responsible to its parent command for compliance with all procurement regulations, including those that govern SeaPort-e. These individual Heads of Contracting Activity (HCAs) operate under the authority and oversight of the Assistant Secretary of the Navy for Research, Development and Acquisition (ASN RDA).

SeaPort-e was designed to provide a powerful strategic tool that allows contracting officer's the maximum flexibility to exercise their own business judgment to best meet the needs of their customers. Each ordering activity has the tools to manage their contracts, maintaining their own Head of Contracting Activity. Metrics have been developed to track acquisition cycle times, workload efficiency, dollars awarded using SeaPort-e, dollars awarded to small businesses at both the prime and subcontract level. These metrics have been developed over the initial implementation of the SeaPort-e acquisition program, and will continue to be refined and developed throughout the life of the program. These metrics are used to gather data for analysis to ensure that this is the best contract vehicle for the Navy, if changes are needed, and if the Navy is receiving the services contracted for and in a timely manner.

Mr. Chairman, thank you for your interest in the SeaPort-e program. We appreciate the support Congress provides so that we may meet the needs of the Warfighter. We believe the SeaPort-e contract vehicle is a Navy success story for both the Navy and many small and large businesses working with us via this contract. We will continue to develop new tools, resources and ideas to ensure adequate oversight, increased competition, and efficiency. I will be happy to answer any questions you may have. Thank you.



Jerome F. Punderson
Director of Contracts
Naval Sea Systems Command

Jerome Punderson is the Director of Contracts, Naval Sea Systems Command (NAVSEA). He has full authority and responsibility for one of the largest and most responsible procurement organizations in the Federal government; his duties involve the obligation and expenditure of billions of dollars annually. As the senior civilian for contracting at NAVSEA, Mr. Punderson is responsible for the contractual oversight of the Nation's most complex shipbuilding and weapons systems procurement programs.

He is a member of the Senior Executive Service (SES). Members of the SES serve in the key positions just below the top Presidential appointees. They are the major link between these appointees and the rest of the Federal work force. SES members operate and oversee nearly every government activity in approximately 75 Federal agencies.

Mr. Punderson was born in Lakewood, New Jersey. He attended Rutgers University where, in 1979, he earned a Bachelor of Arts in Biology. In 2003 he earned a Masters of Science in National Resource Strategy from the Industrial College of the Armed Forces.

He began his civil service career in 1981, completing the contracting intern with the Naval Electronics Systems Command before accepting a contracting position with the Patent and Trademark Office. Returning to the U.S. Navy in 1985, he joined NAVSEA as a contract negotiator for undersea programs and was subsequently selected to be the Contracting Officer responsible for the procurement of major Anti-Submarine Warfare (ASW) Combat Systems. In 1988 he was promoted to Branch Head position where he provided leadership over a number of major weapons systems, including several major acquisition programs (ACAT 1D), first as branch head of the Mine Warfare and Surfaces Ship ASW Branch and then as branch head to the STANDARD Missile Branch. For eighteen months, Mr. Punderson served as the acting Director of the Surface Systems Contracts Division, an acquisition organization responsible for the procurement of major weapon systems valued at \$3.1 Billion annually before being selected in 2001 to be the Director of the Undersea Systems Contracts Division.

From 2001 to 2009, Mr. Punderson was the Director of the Undersea Systems Contracts Division, the organization responsible for the procurement of the AEGIS Ballistic Missile Defense system, the DoN Converged Enterprise Resource Planning (C-ERP) systems, and many undersea systems, resulting in \$3.0 Billion in annual obligations. In addition, he was the Program Manager for the SeaPort-e program at NAVSEA, a strategic approach to acquisition of services emphasizing affordable and timely procurement of services through a completely electronic web-based marketplace. Most recently, Mr. Punderson led the expansion of SeaPort-e to the Navy Virtual SYSCOM (VS) comprised of NAVSEA, NAVAIR, SPAWAR, NAVSUP and NAVFAC, where services valued at up to \$5.3 Billion annually may be procured using these vehicles.

He is a recipient of the Navy Meritorious Civilian Service Medal and numerous Special Act awards.

**WITNESS RESPONSES TO QUESTIONS ASKED DURING
THE HEARING**

JULY 16, 2009

RESPONSE TO QUESTION SUBMITTED BY MR. ANDREWS

Mr. PARSONS. The current numbers of LOGCAP Program management personnel in the theater are:

Iraq

55 DCMA Military, 28 Military LOGCAP (LSU)

54 DCMA Civilians, 27 LOGCAP Program Office Support Contractors

Afghanistan

28 DCMA Military, 30 Military LOGCAP (LSU)

64 DCMA Civilians, 18 LOGCAP Program Office Support Contractors

These are in addition to personnel from the three companies that have what we call “execution” contracts—the contracts that provide support to the military units deployed in the area such as dining halls, facility support, etc. [See page 13.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

JULY 16, 2009

QUESTIONS SUBMITTED BY MR. ANDREWS

Mr. ANDREWS. From the Air Force's point of view what have been the benefits and disadvantages of having a multi-award AFCAP contract as opposed to a single award contract. What studies or analysis has been completed to document the advantages and disadvantages?

General MASIELLO. There have not been any formal studies documenting the advantages and disadvantages of multiple award versus single award contracts for AFCAP services. However, the primary benefit of the AFCAP III multiple-award contract is the ability to obtain competitive rates for labor, materials, and equipment at worldwide locations with ever changing market conditions. In addition, since past performance on AFCAP task orders is an evaluation factor for award of new task orders, the contractors are incentivized to successfully perform in order to effectively compete for future awards. The main disadvantage associated with the multiple award contract type is the quantity of work must be sufficient to sustain the participation of multiple vendors; however, this has not been a challenge under AFCAP III where almost all task orders are competitively awarded. An additional burden to multiple award contracts is the increased time to assess multiple proposals in a task order source selection. This is mitigated on the AFCAP III program by having a manageable number of contracts that promote competition while still permitting the source selection to be accomplished in a period of time responsive to the user's needs.

Mr. ANDREWS. DCMA currently provides a significant amount of support to the AFCAP contracts in theater. The Committee understands that in the near future, DCMA will no longer provide contract administration services to either contract. Could you tell the committee how the Air Force plans to provide oversight of the contracts in deployed locations considering the shortfalls in the acknowledged shortfalls in the acquisition workforce?

General MASIELLO. The Air Force is part of an OSD led joint working group examining the optimal execution and resourcing of Contingency Contracting Administration Services (CCAS). However, this will not impact DCMA's support of our CCAS needs in the AOR for the foreseeable future. Additionally, for countries other than Iraq or Afghanistan, the Air Force currently provides its own CCAS for AFCAP. In Iraq and Afghanistan, Joint Contracting Command Iraq/Afghanistan (JCC-I/A) has cognizance and utilizes DCMA to provide CCAS on the AFCAP III program. If at some point, a decision is made to alter the CCAS support DCMA provides in theater; the Air Force will work with stakeholders within the Department to ensure effective CCAS support to the warfighter.

Mr. ANDREWS. The current AFCAP contract is for 1 year plus 9 option years? What are the advantages of having contracts of this length? Are there any disadvantages?

General MASIELLO. There are several advantages of the AFCAP contract of 1 year plus 9 options years. Anecdotally, contractors have stated they are more likely to propose on a contract with a longer period of performance thereby potentially increasing our competitive base on this multiple award program. From a government resource stand point, longer periods of performance allow us to focus limited acquisition resources on the post-award administration and then surge to conduct source selections. An award every three to five years, would keep us in a near perpetual source selection surge on this program. To mitigate the potential risk of stale pricing associated with longer term contracts, each AFCAP III requirement is competed at the task order level and there are no set pricing conditions over the life of the contract that drive to specific labor or material pricing rates. Therefore, the Air Force receives competitively derived pricing on task orders regardless of option year. A known disadvantage of a ten year basic contract is the risk associated with contractor mergers and acquisitions and changes to company business models that could potentially reduce the number of active contractors on this program. AFCAP III mitigated this risk by having a large enough contractor base so that we maintain healthy and active task order competition at nearly the halfway point on this 10 year contract.

Mr. ANDREWS. What are the lessons learned from the use of this type of contract?

General MASIELLO. As previously mentioned, the AFCAP III program has learned several lessons from the first iteration of AFCAP. The AFCAP III program has learned the Air Force receives much more benefit when using definitized requirements, competition, and multiple contract types to craft the best acquisition strategy for the requirement.

Mr. ANDREWS. LOGCAP guidance reflects the single contractor concept. What plans does the Army have to revise its LOGCAP guidance to reflect the new concept of operations?

Mr. PARSONS. The Army is currently revising doctrine to reflect lessons learned in Iraq and current LOGCAP constructs. Under the Logistics Civil Augmentation Program (LOGCAP) Strategy 2010 General Officer Steering Council, the Army G-4 (Logistics) is leading an effort to examine present LOGCAP implementation realities and challenges, revisit all past program assumptions, determine enduring and appropriate tenets of the LOGCAP program, and develop a strategy for future utilization and programmatic. The results will be incorporated into an updated Army Regulation 700-137 *Logistics Civil Augmentation Program*. After this group has a completed product, it will be staffed throughout the Army then published. The staffing process is expected to begin in early 2010. These efforts will result in doctrine and policy that align with the LOGCAP IV multiple contractor concept.

Mr. ANDREWS. DCMA currently provides a significant amount of support to the AFCAP contracts in theater. The Committee understands that in the near future, DCMA will no longer provide contract administration services to either contract. Could you tell the committee how the Air Force plans to provide oversight of the contracts in deployed locations considering the shortfalls in the acknowledged shortfalls in the acquisition workforce?

Mr. PARSONS. The Army Contracting Command has submitted a concept plan for approval that contains 31 personnel to support that mission—one military, ten contracting personnel and 20 quality assurance specialists for the LOGCAP program office, and 497 deployable contracting and quality assurance specialists for the ACC. In addition, the ACC has submitted a Force Design Update (FDU) request that includes 158 active duty Sergeants and 74 Army National Guard and 24 Reserve Sergeants that could augment those positions. We are working with the Army to identify how to resource those positions and to determine when personnel will be provided.

Mr. ANDREWS. In the past GAO has reported that those who used logistic type contracts contingencies for example, the commanders on the ground, often did not understand how the contract worked, or what their responsibilities were. What steps have the services taken to improve customer understanding of the contracts?

Mr. PARSONS. The Operational Contract Support doctrine and related training are in the process of being changed to reflect changes in the LOGCAP program and the greater reliance on contractors in the deployed wartime environment. The field manual entitled *Army Tactics, Techniques, and Procedures (ATTP)/FM 4-10 Commander's Guide to Operational Contract Support* will be renamed *The Army Guide to Operational Contract Support*. It will be refocused on operational level planning and tactical level requiring activity procedures. A draft for comment is expected to be circulated in late 2009. It will incorporate the tenets of *Army Regulation 715-9 Operational Contract Support Planning and Management*, which reflects current LOGCAP constructs.

In addition to these doctrine changes, the Army has developed an Operational Contracting Support Course. The target population for the class is selected logistics and other non-acquisition officers/senior NCOs from FORSCOM and other operating force units. The second class of that course was held 13-24 July 2009. 17 students attended and graduated. The third session will begin in mid September.

Mr. ANDREWS. Under the LOGCAP IV contract, each contractor proposes a fee as part of the proposal submitted for each task order. Under the LOGCAP III contract the fee was established at the time the contract was awarded. First, why was this change implemented and second, have the fees agreed upon been higher or lower than the fee agreed to under the LOGCAP III contract?

Mr. PARSONS. The change was implemented as part of the overall strategy to award to multiple contractors rather than just one single award. By allowing the contractor to propose fee as part of the task order award process, the Army conforms to the Federal Acquisition Regulation's requirement to align profit rate with the relative risk the contractor will experience for a given effort. The profit analysis factors in FAR 15.404-4(d) sets forth the elements to be considered in evaluation of profit, including at paragraph (ii)(A) the risk associated with the complexity and duration of the contract task. Given the diversity of the tasks expected to be awarded under the LOGCAP IV contracts, it made sense to allow the fee/profit rate to vary with the instant task. This has the additional benefit of allowing rates to be reduced in

the future should the execution environment become less risky. Had the Army kept the rate constant, the rates would have been set within the context of an on-going conflict with high performance risk. This would have resulted in higher fees for the life of the contracts.

Actual fees paid bear this out. The fee for LOGCAP III was set just after 9/11 before the amount of work to be performed in Afghanistan and then Iraq was known. The previous contracts reflected much shorter tasks in less risky environments. This is likely the reason that KBR proposed a 3% fee. The other offerors proposed a 6% fee. Fees to date under LOGCAP IV are higher—in the 4.5 to 10% range combining the base and potential award fees.

Paying potentially higher award fees does not necessarily mean higher overall costs to Government. LOGCAP IV Task Order Competitions should drive lower estimated cost baselines upon which fees are based. Competition forces should drive lower actual cost. Government only pays actual cost plus fees based upon the estimated cost baseline.

We note that the FAR cautions contracting officers to pay fair and reasonable profits and fees to contractors to encourage them to remain in the industrial base. FAR 15.404–4(a)(2) states “It is in the Government’s interest to offer contractors opportunities for financial rewards sufficient to stimulate efficient contract performance, attract the best capabilities of qualified large and small business concerns to Government contracts, and maintain a viable industrial base.” In addition, FAR 15.404–4(a)(3) states that profit should motivate efficient performance and extremely low profit rates do not motivate such performance. “Both the Government and contractors should be concerned with profit as a motivator of efficient and effective contract performance. Negotiations aimed merely at reducing prices by reducing profit, without proper recognition of the function of profit are not in the Government’s interest. Negotiations of extremely low profits, use of historical averages, or automatic application of pre-determined percentages to total estimated costs do not provide proper motivation for optimum contractor performance.

Mr. ANDREWS. What, if any problems has the Army encountered as it transitioned from using LOGCAP III to LOGCAP IV in Kuwait and Afghanistan? What actions in the department taking to avoid similar problems as it transitions in to LOGCAP IV in Iraq?

Mr. PARSONS. The Acquisition Strategy from the beginning was to begin transition in Kuwait, capture the lessons learned and then move to Afghanistan, capturing the lessons learned from this transition and then move to Iraq. As far as problems encountered during the transition—none affected mission or became showstoppers.

Obviously, the military environment changed as the President directed that we expand in Afghanistan. We, in the acquisition community, adjusted accordingly and while we did capture the lessons from Kuwait and successfully completed the transition we are also capturing the lessons from the expansion and will capture the lessons as we transition the legacy task orders in Afghanistan.

There were 16 specific lessons learned from Kuwait were:

1. Communication
2. Protocols
3. Property Inventories
4. Material Inventories
5. Property and Materials Location
6. Transfer of ITAR
7. Certificates for Trade Employees
8. Hiring of Incumbent Employees
9. Badging
10. Vehicle Transfer & Registration
11. DODAAC
12. IT COMMS
13. CAC Process
14. Flight Physicals
15. Proprietary Determination
16. Site Transfer Process

There were also lessons learned by DCMA for property transfer and for their QARs.

We are just beginning the transition for Afghanistan and have yet to experience the difficulties we expect in transportation and movement of men, material, and equipment since Afghanistan lacks the infrastructure of Kuwait and Iraq.

Mr. ANDREWS. What is the role of LOGCAP in the draw down of forces in Iraq? How is the LOGCAP office involved in the planning for the draw down? Does the

LOGCAP office has enough assets in Iraq to manage the draw down as well as the anticipated transition from LOGCAP III to LOGCAP IV?

Mr. PARSONS. LOGCAP is faced with closing 10 Forward Operating Bases (FOBs) between now and August 2010. Since this number could change based on conditions on the ground LOGCAP has dedicated personnel assigned to the MNC/MNF-I planning cell. Under the current contract, known as LOGCAP III, the contractor is tasked to close the FOB upon direction. LOGCAP has been asked to provide personnel to man the Base Closure Assessment Team (BCAT) which is established to provide advice to those Commanders on FOBs where LOGCAP is not responsible for closing the base.

Past this tasking LOGCAP has not been tasked to provide any additional support.

Mr. ANDREWS. The current LOGCAP contract is for 1 year plus 9 option years? What are the advantages of having contracts of this length? Are there any disadvantages?

Mr. PARSONS. The benefit of a 10 year contract length for the execution contracts is to establish three qualified contractors in a long term relationship with the Government, where they operate in a competitive environment for task orders. It provides stability for contractors in establishing vendor relationships and continuity for Government operations in not having to conduct a major source selection after five years when we have three quality contractors who compete for work. As long as the execution contractors are performing well and there is competition for task orders, there is no reason to cut short a ten year performance period. Competing the effort more frequently consumes significant resources related to a major source selection as well as the potential mission disruption while undergoing a transition from one contractor to another, while realizing no appreciable benefit, given that the Government continues to realize the benefits of competition through the task order process.

As the Government also retains the ability to shorten the period of performance by not exercising options or using the termination for convenience clauses in the contract, there is no associated disadvantage in this approach. Note that the LOGCAP III contract is ending before its anticipated 10 year period of performance is complete.

Mr. ANDREWS. What are the lessons learned from the use of this type of contract?

Mr. PARSONS. The Army has learned that profit and fee rates can motivate efficient performance if used correctly. These lessons were applied in developing the LOGCAP IV acquisition strategy.

The fee rates were discussed at length as the acquisition strategy was developed for the LOGCAP IV contract. CPAF Fees: For CPAF task orders on the LOGCAP IV execution contracts, there will be no minimum fee percents for the base or award fee portions. The maximum combined base plus award fee is 10%, with a maximum base fee of 3% a contractor can propose. A cap was set on total CPAF fee because there will be instances where competition is not possible and there are no locked in fee percents. The cap prevents possible excessive fee in those non-competitive situations. All other things being equal, a lower base fee percent is more advantageous to the Government since the contractor's performance has to earn a higher percent of the award fee.

In deciding on this approach, the Army considered several sources of input. At the July 26, 2005 Industry Day, the Army initially proposed possibly setting a minimum and maximum level for both base fee and award fee percents. Industry was receptive to this approach, as they perceived the very low fees the incumbent proposed on the LOGCAP III solicitation had an impact on the award decision. They also did not believe it beneficial to a company's long term financial health to be locked into very low fees on a long term contract. Subsequently the Army reconsidered the impact of competition on task orders and decided that fees proposed on the sample scenario should apply to real world task orders. With individual task orders being competed, the execution contractors will be more competitive if they are not locked into established fee percents over the life of the contract. This will permit them to vary their proposed fees based on the immediate requirement and decide how aggressive they choose to be in the fee area on certain individual task orders.

Experience on the LOGCAP III contract showed that very low fees, locked in for a long term contract where there is only one contractor, are not as effective in getting good cost proposals. This led the Army to initially consider setting minimum base and award fee percents. However, it was ultimately determined that having multiple contractors, who will submit a proposal on each competitive task order, will provide enough incentive and minimum fee percents were not needed.